Newfoundland Labrador

The Economic Review 2011

Table of Contents

Photo: Point Amour Lighthouse (Dept. of Finance)

The Economic Review is published annually by the Government of Newfoundland and Labrador under the authority of: The Honourable Thomas W. Marshall, Q.C., Minister of Finance and President of Treasury Board. All data are current as of November 25, 2011.

Comments and questions concerning *The Economic Review 2011* should be directed to:

Economic Research and Analysis Division
Department of Finance, P.O. Box 8700
St. John's, NL A1B 4J6

Telephone: (709) 729-3255
Facsimile: (709) 729-6944
e-mail: infoera@gov.nl.ca

Copies of *The Economic Review 2011* can be obtained by contacting:

Office of the Queen's Printer
Telephone: (709) 729-3649
Facsimile: (709) 729-1900
e-mail: queensprinter@gov.nl.ca

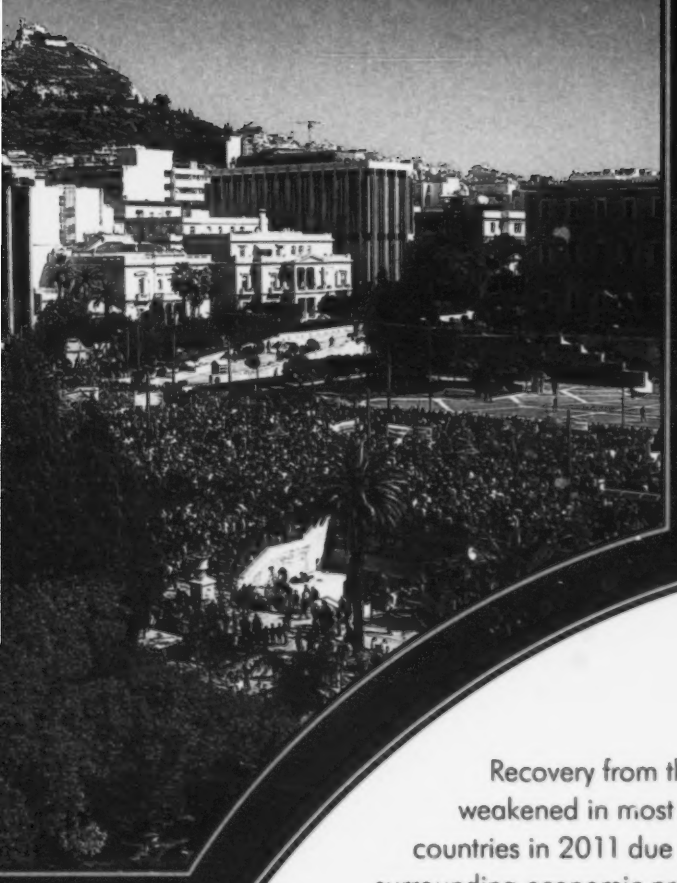
The Economic Review 2011 is also available on the Economic Research and Analysis Division's website:

www.economics.gov.nl.ca/ER2011

ISSN 1208-9982

Cover photo front and back: St. John's Harbour (Dept. of Finance)

Global Economic Environment 2
Provincial Economic Overview 6
Oil and Gas 12
Mining 20
Forestry and Agrifoods 27
Fishery 32
Manufacturing 40
Real Estate 42
Construction 46
Travel and Tourism 50
GDP and Employment 54



Global Economic Environment

Photo: Greece (http://blogs.ft.com/the-world/2011/10)

Recovery from the global recession weakened in most advanced countries in 2011 due to rising uncertainty surrounding economic prospects, especially in the United States and Europe (see chart).

In the U.S., unemployment remained stubbornly high as the federal government's poor fiscal health and regulatory uncertainty contributed to low consumer and business confidence. Economic conditions in Europe did not help the situation as the sovereign debt woes that first emerged in Greece—and spread to Portugal, Ireland and Spain—reached Italy and France in 2011. These challenges were amplified by the earthquake and tsunamis in Japan (which disrupted global supply chains) and civil unrest across the Middle East (which drove up the price of oil). The saving grace was that robust growth in developing nations, namely India and China, buoyed the global economy.

In Europe, the stressed fiscal position of a number of nations continued to constrain recovery in 2011. In particular, the mismatch between revenues and spending in Greece, Portugal, Ireland, Spain and Italy led to austerity measures that curtailed growth and significantly

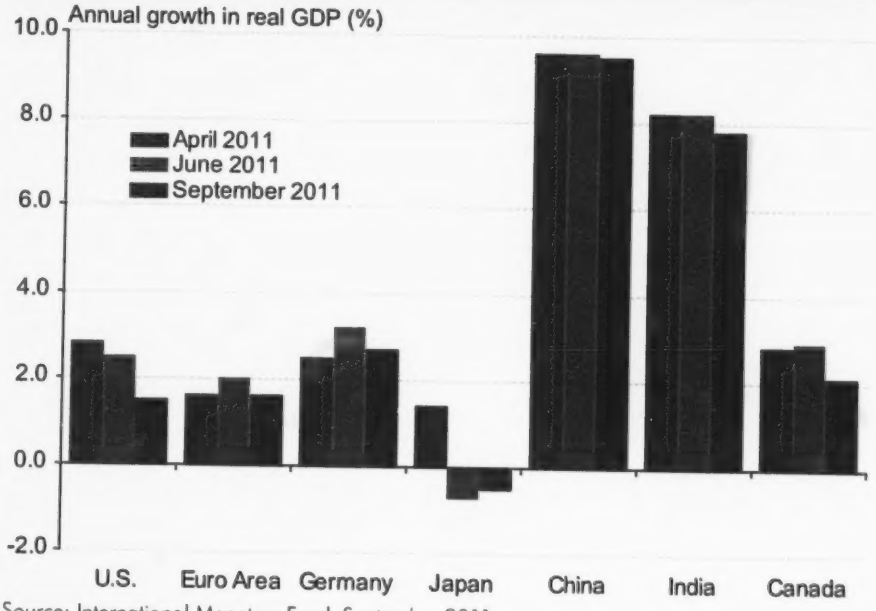
World Real GDP Growth (%)

	2011	2012f
World	4.0	4.0
Brazil	3.8	3.6
India	7.8	7.5
Russia	4.3	4.1
China	9.5	9.0
Canada	2.3	2.1
United States	1.8	2.4
Japan	-0.5	2.3
Australia	1.8	3.3
European Union	1.8	1.7
United Kingdom	1.1	1.6
Euro Area	1.6	1.1
Ireland	0.4	1.5
Germany	2.7	1.3
France	1.7	1.4
Spain	0.8	1.1
Portugal	-2.2	-1.8
Italy	0.6	0.3
Greece	-5.0	-2.0

f: forecast
Source: Canada - Average of major Canadian banks; U.S. - Survey of Professional Forecasters, U.S. Federal Reserve Bank of Philadelphia; all other jurisdictions - International Monetary Fund, September 2011.

increased borrowing costs. For these five countries, the average difference between interest rates on their debt and that of Germany (benchmark), the euro area's strongest economy, climbed from 4.5 percentage points in January 2011 to 7.8 percentage points by October. This issue was intensified as banks holding claims to the debt of these countries saw the value of their assets fall with rising interest rates. After moving slowly to address the situation for most of the year, in late October European leaders committed to a more aggressive approach to deal with the sovereign debt crisis. Provisions were made to increase the bailout mechanism for stressed European nations from 440 billion euros to 1 trillion, leaders negotiated a "voluntary" 50% writedown of privately held Greek debt and Italy committed to deeper austerity measures. Nevertheless, the debt writedowns and looming increased capital requirements for European banks will force banks to reduce lending, driving up borrowing costs for businesses and consumers in the near to medium term. This will dampen growth prospects across the Continent.

2011 GDP Growth Forecasts



Source: International Monetary Fund, September 2011

Developing countries have fared much better than the U.S. and Europe this year. In particular, China and India are expected to see gross domestic product (GDP) growth of 9.5% and 7.8% respectively in 2011. Strong growth in developing countries sustained commodity prices and GDP growth globally. The International Monetary Fund (IMF), despite reducing its economic outlook in September, is still projecting 4.0% global GDP growth in 2011 and 2012.

United States

The strength of the U.S. economic recovery continued to wane in 2011 as quarterly, annualized GDP growth fell steadily from 3.9% in the first quarter of 2010 to 0.4% in the first quarter of 2011. Even though GDP growth accelerated somewhat in the second (1.3%) and third (2.0%) quarters of 2011 as global disruptions dissipated (i.e. Japanese suppliers recovered from the earthquake) uncertainty and dwindling policy options are preventing a return to the strong rebound seen early in 2010.

Business and consumer uncertainty coupled with the withdrawal and expiration of fiscal stimulus measures have drained the recovery of momentum. Firms and financial institutions are currently sitting on record levels of cash and liquid assets. Unsure of their future commitments in terms of taxes or financial regulation, these entities have been unwilling to funnel those funds into expansion and growth projects, significantly contributing to the "jobless" nature of the recovery. The weak labour market is evident in several key indicators. The U.S. employment-population ratio was 62.7% when the recession hit in December 2007. By the end of 2010, it had fallen to 58.3% and it has not improved since. This has coincided with no improvement in the unemployment rate (9.0% in January 2011, 9.0% in October) and only a 0.7% increase in employment since January. In October, employment stood at 140.3 million, still 4.3% below pre-recession employment levels.

Uncertainty in the U.S. economy was exacerbated in July and August as Republican Congressional leaders threatened to block passage of an increase in the federal government's debt ceiling, which would have potentially compromised the ability of the U.S. to cover its fiscal obligations. As the deadlock inched closer to an August 2 deadline, investors moved towards safe-haven assets. This trend accelerated when Standard & Poor's downgraded U.S. federal government debt on August 5. Gold climbed from US$1,601 an ounce on July 21 to US$1,772 on August 10, while yields on U.S. Treasuries, as counterintuitive as it may seem, fell from 3.0% to 2.1% over the same time frame. Investor rationale is that, as bad as conditions in the U.S. are, U.S. debt is still the safest bet vis-à-vis other assets markets in such a volatile environment.

Conversely, stock markets plunged. The Dow Jones Industrial Average fell 15.8% over that period and the S&P 500 fell 16.6%. This uncertainty remains as a Congressional, bipartisan "super committee", tasked with identifying at least US$1.5 trillion in deficit reductions (over 10 years) by November 23, failed to reach an agreement.

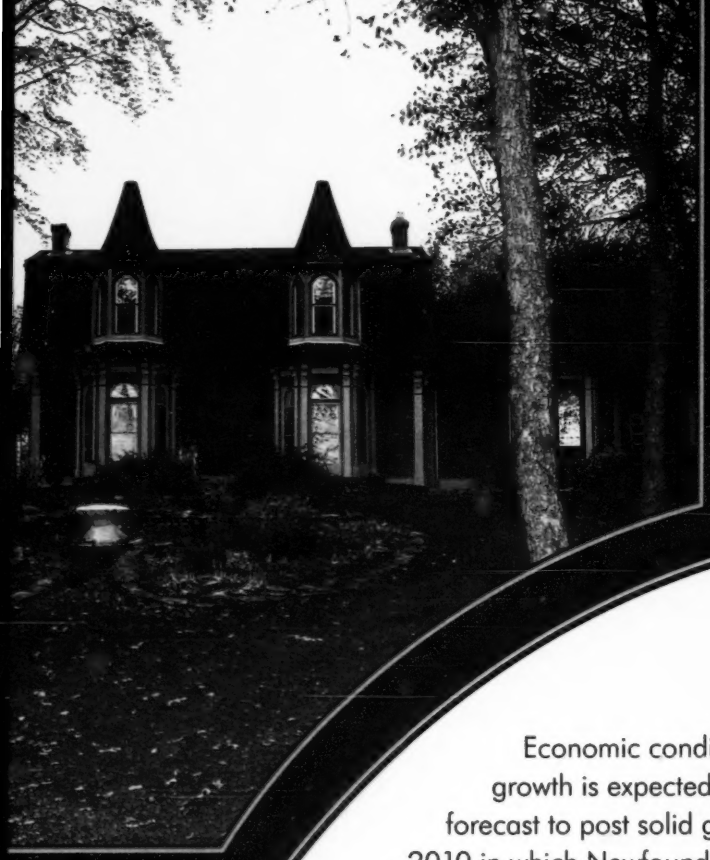
Since the summer, U.S. economic conditions have improved, or at least stabilized, but the potential of another downturn exists. Most experts have reduced their projections for growth. The Federal Reserve Bank of Philadelphia Survey of Professional Forecasters saw almost a percentage point reduction in forecasts for 2011 between May and November, from 2.7% GDP growth to 1.8%. Projections for 2012 fell from 3.0% to 2.4%.

Canada

Like most developed nations, the Canadian economy showed strong signs of recovery at the beginning of the year. Quarterly GDP, at an annualized rate, expanded by 3.6% in the first quarter of 2011 and the unemployment rate fell to 7.8% by January, down almost a full percentage point from the peak in August of 2009 and half a percentage point from a year earlier.

However, Canada was not immune to uncertainty and dimming recovery in the global economy. As the year progressed growth slowed, with quarterly, annualized GDP growth falling to -0.4% in the second quarter. This was primarily a reflection of downturns in the U.S. and Europe, leading to reduced exports. High commodity prices and stronger growth in developing nations somewhat shielded the Canadian economy, which was reflected in employment and, lately, GDP growth. Real GDP for July and August increased by 0.4% and 0.3%, respectively, while the unemployment rate dropped to 7.3% by October and employment grew by 0.8% since January.

Provided there is no spillover from economic issues in Europe and the U.S. to the broader global economy, developing markets should continue to provide a buffer for the Canadian economy. Nevertheless, projections for GDP growth in Canada, as in other advanced economies, have been revised downwards in recent months. As of November, an average of forecasters projects Canadian GDP growth of 2.3% in 2011 and 2.1% in 2012. As recently as August, comparable forecasts were 2.7% and 2.6%, respectively.



Provincial Economic Overview

Photo: Rose Manor—Harbour Grace (Dept. of Finance)

Economic conditions were robust in the province in 2011. Strong growth is expected in GDP and most other economic indicators are forecast to post solid gains. This follows an impressive performance in 2010 in which Newfoundland and Labrador's employment and real GDP growth were the strongest among provinces. The Department of Finance's forecast for real GDP growth for the province in 2011 is 4.9% (see table). Investment, largely related to the development of major projects in the province, is the main driving force behind economic expansion this year.

Total capital investment is expected to be about $8.0 billion in 2011, a 21.9% increase over 2010. Construction activity at Vale's nickel processing facility in Long Harbour is well underway; IOC expansion activities in Labrador City are progressing; the Hebron oil project is ramping up; and other oil-related projects, such as White Rose and Hibernia expansions, are adding to activity. These projects, combined with the continuation of government's infrastructure strategy, are generating thousands of direct jobs and economic spin-offs throughout the province.

In addition to spending on major projects and public infrastructure, residential investment is also contributing to high levels of capital expenditures. Investment in the residential sector is expected to total about $1.7 billion this year, on par with last year and buoyed by robust activity in renovations. Housing starts are down from 2010 but remain at historically high levels.

The construction industry is reaping the benefits of this increase in investment, as evidenced by an increase in monthly average employment of 3,400 to the end of October. Other industries in

Economic Indicators

	2010e	2011f	2012f	2013f	2014f
GDP at Market Prices ($M)	28,192	33,170	32,804	34,858	34,879
% Change	13.9	17.7	-1.1	6.3	0.1
% Change, real	6.1	4.9	0.8	0.7	-1.4
Final Domestic Demand* ($M)	26,827	29,349	31,579	32,116	32,726
% Change	10.8	9.4	7.6	1.7	1.9
% Change, real	8.8	7.8	5.1	-0.6	-0.1
Personal Income ($M)	17,372	18,386	19,514	20,378	21,274
% Change	3.8	5.8	6.1	4.4	4.4
% Change, real	1.4	2.3	4.0	2.2	2.1
Personal Disposable Income ($M)	14,010	14,824	15,728	16,436	17,169
% Change	4.5	5.8	6.1	4.5	4.5
% Change, real	2.1	2.3	4.0	2.3	2.1
Retail Sales ($M)	7,449	7,806	8,176	8,603	8,931
% Change	4.6	4.8	4.7	5.2	3.8
% Change, real	2.4	2.4	2.9	3.7	2.0
Consumer Price Index (2002=100)	117.4	121.4	123.9	126.5	129.4
% Change	2.4	3.4	2.0	2.1	2.3
Capital Investment ($M)	6,549	7,982	9,246	8,961	8,761
% Change	32.3	21.9	15.8	-3.1	-2.2
% Change, real	29.7	24.4	13.0	-5.5	-3.3
Housing Starts (Units)	3,606	3,351	3,308	3,077	2,974
% Change	18.0	-7.1	-1.3	-7.0	-3.3
Employment (000s)	219.4	225.6	230.0	232.1	233.8
% Change	3.3	2.8	1.9	0.9	0.7
Labour Force (000s)	256.3	257.8	261.5	263.0	264.7
% Change	2.0	0.6	1.4	0.6	0.6
Unemployment Rate (%)	14.4	12.5	12.0	11.8	11.7
Population (000s)	511.3	510.6	513.3	515.3	516.9
% Change	0.5	-0.1	0.5	0.4	0.3

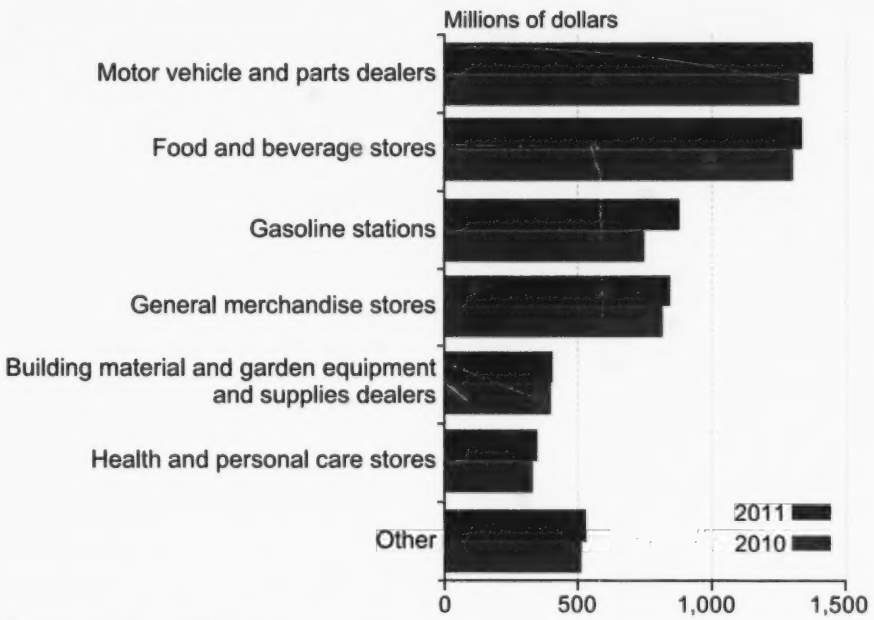
* Final domestic demand measures demand in the local economy by summing consumption, investment and government expenditures; it excludes net exports.
e: estimate; f: forecast, Department of Finance, November 2011
Source: Statistics Canada; Department of Finance

the province have also performed well this year. The mining industry is benefiting from strong demand and high commodity prices; non-resident tourist numbers remain at high levels; the aquaculture industry continues to expand; the retail sector is benefiting from increased incomes; and transportation services are generally being boosted by higher levels of economic activity.

Consumer spending is also contributing to economic growth this year. Retail sales rose by 5.3% in the first nine months of the year, compared to the same period in 2010. Growth in retail sales was broad-based with most store types recording an increase in sales (see chart). Sales were particularly strong at gasoline stations due to higher prices. Continued high levels of consumer confidence—the highest in Atlantic Canada—combined with employment and income growth supported higher consumer spending in the province.

Retail Sales by Store Type

January to September



Source: Statistics Canada; Dept. of Finance

The strength of the provincial economy is evident in the robust growth in final domestic demand (FDD). FDD, in real terms, is expected to increase by 7.8% in 2011, greater than real GDP growth because exports are not included in the calculation.

Total exports (in real terms) are forecast to grow by 1.9% in 2011. A slight decline in oil production—due to production issues at Terra Nova and natural declines—will be offset by higher mineral production. Oil production is expected to total 98.9 million barrels for the year, compared to 100.7 million barrels in 2010. Exports of mineral products are expected to increase by almost 30% in real terms as production at the Voisey's Bay mine rebounds from strike-depressed levels in 2010.

Labour Markets

Strong growth in employment over the last two years have resulted in provincial employment levels recovering from the recession-related losses recorded in 2009 and employment is expected to reach a record high of 225,600 in 2011. Newfoundland and Labrador is expected to record one of the strongest increases in employment in the country in 2011, second only to Alberta. From January to October average employment was 2.9% higher than the same period of 2010.

Employment growth is being driven by major project development activity and related spin-offs, continued increases in consumer spending, and strong public sector spending. Gains in employment have led to a decline in the unemployment rate—the unemployment rate averaged 12.6% to October, 2.0 percentage points lower than the first 10 months of 2010 and the lowest (for this time period) in 36 years.

Labour market strength is also evidenced by rising wage rates. Average weekly earnings increased by 4.9% in the first nine months of the year compared to the same period in 2010. Labour income in the province increased by 7.3% in the first nine months, aided by gains in employment and wages. Total personal income is expected to rise by 5.8% this year.

Prices

On a year-over-year basis, the Consumer Price Index (CPI) was 3.3% higher in the first 10 months of 2011 compared to the same period in 2010. The increase in the CPI was largely driven by higher energy prices. The energy price index increased by 13.5%. Higher energy costs resulted in increases in the shelter (affected by home heating fuel) and transportation (affected by gasoline) components of the CPI. The

"all-items excluding energy" index rose more moderately (1.9%). Food prices have also been exerting upward pressure on the CPI this year. The food index increased by 3.2% in the first 10 months of 2011 compared to the same period in 2010.

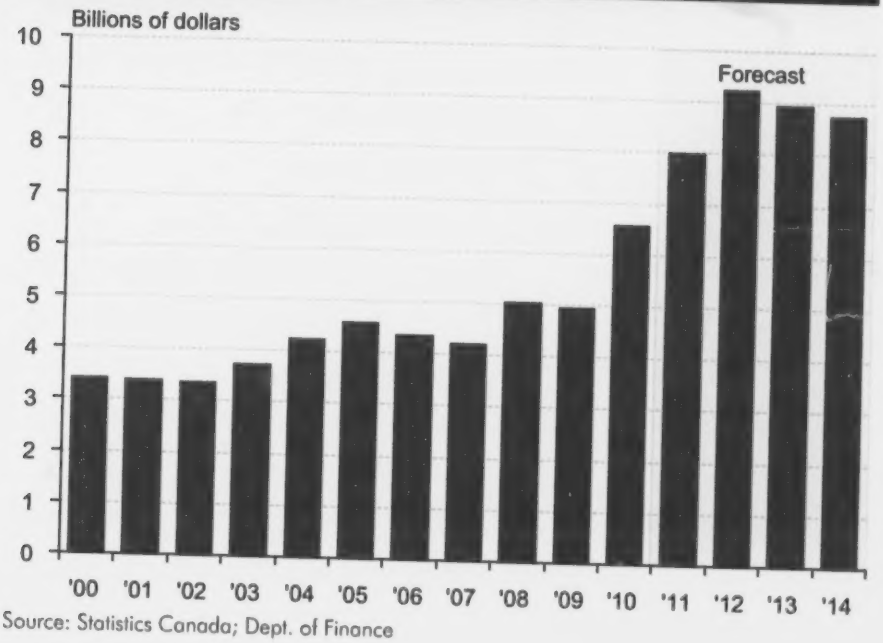
Population

Expansion in the economy and increasing employment have served to stabilize the province's population. Prior to 2009, the population had declined for 16 consecutive years because of high levels of out-migration. The province recorded increases in its population in both 2009 and 2010 as net in-migration occurred. Migration trends, and subsequently population levels, will continue to be impacted not only by strength in the local economy but also by labour market demand in other provinces, particularly Alberta. Preliminary data released by Statistics Canada indicates that the population of the province on July 1, 2011 was 510,578, down 0.1% from one year earlier.

Outlook

Economic growth—as measured by real GDP—is expected to slow in 2012 due to a decline in exports stemming from lower oil production. However, growth in final domestic demand is expected to continue to be robust, buoyed by higher levels of investment on major projects. Construction activity at the site of Vale's nickel processing facility in Long Harbour is expected to peak next year and the Hebron and Muskrat Falls developments are expected to ramp up, resulting in a further increase in investment expenditures. Strong domestic demand is expected to lead to solid growth in other economic indicators. Both employment and personal income are expected to post solid gains. Increased employment and income, combined with high levels of consumer confidence, will bolster consumer spending—retail trade is expected to continue to record steady growth. Population is expected to increase in 2012 as job openings and continued optimism regarding the strength of the economy result in a return to net in-migration.

Capital Investment



Source: Statistics Canada; Dept. of Finance

The medium term outlook for Newfoundland and Labrador is bright. Current and upcoming major projects will continue to drive investment and construction activity. While investment is expected to decline on a year-over-year basis in 2013 and 2014, the level of spending will remain at historically high levels (see chart). Real GDP growth will fluctuate, depending on natural resource production and major project timelines, however, employment and income are expected to continue to post gains and this will lead to an increase in retail sales. Solid economic conditions are expected to support continued in-migration and an increase in population.

Oil and Gas

Photo: Seismic vessel Sanco Spirit (Alex Collins, Nalcor)

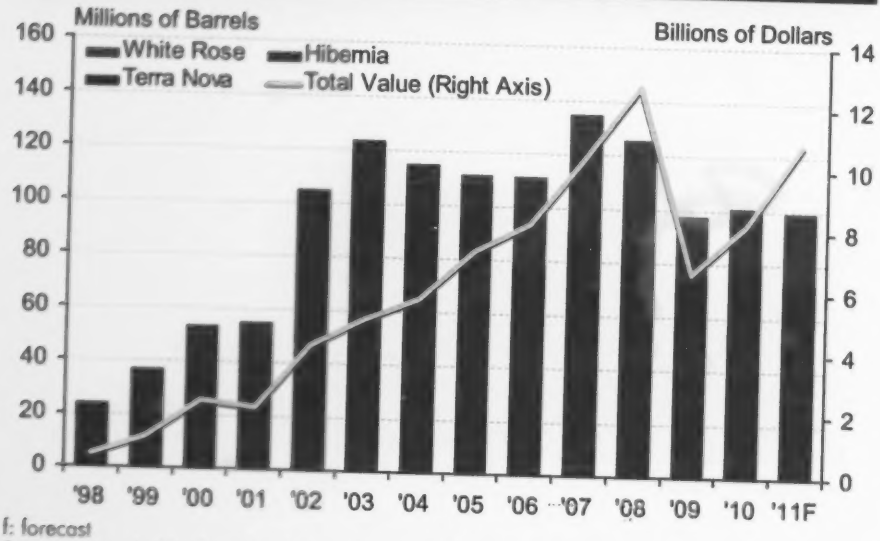
The oil and gas industry is a major contributor to the provincial economy. There are currently three active projects—Hibernia, Terra Nova, White Rose—producing a total of approximately 100 million barrels of oil annually. The industry is also expanding, as another major project—with the second largest reserves in the province's history (Hebron)—is set to come online no later than 2017. Industry also continues to develop additional wells associated with existing projects, such as the Hibernia South Extension, North Amethyst and West White Rose. Furthermore, exploration is ongoing in an effort to discover new resources.

Since first oil flowed from the Hibernia project in 1997 the oil and gas industry has become very important to the economy of Newfoundland and Labrador. Between 1997 and 2010 provincial real GDP grew by 58.8%, averaging annual growth of 3.6%. It is estimated that approximately half of this growth was directly attributable to oil and gas production. The growth of the oil and gas industry has been driven by large infusions of investment, representing 29.0% of total capital expenditures in the province since 1997. In 2010, oil production accounted for approximately 30% of the province's nominal GDP and 19.2% of investment.

Oil Production

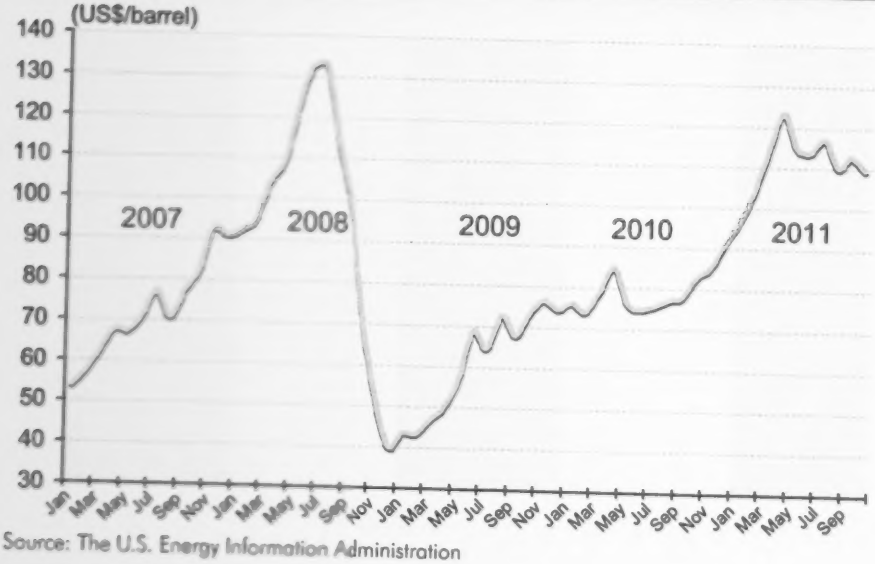
Oil production from the province's three producing projects is expected to decrease to 98.9 million barrels in 2011, compared to 100.7 million in 2010. This drop primarily reflects natural production declines as all three projects are now beyond peak production. Other factors contributing to the decline this year include maintenance and well closures at Terra Nova to deal with the presence of hydrogen sulphide (sour gas) and work to bring the Hibernia South Extension Unit and West White

Offshore Oil Production



f: forecast
Source: Canada-Newfoundland and Labrador Offshore Petroleum Board; Department of Finance

Brent Crude Oil Monthly Spot Prices



Source: The U.S. Energy Information Administration

Rose pilot production well online. During the January to September period of this year, total oil production was 73.4 million barrels, representing a 4.6% decrease (or 3.5 million barrels) relative to the same period in 2010. Cumulative oil production since 1997 totalled 1.3 billion barrels as of September 30, 2011.

Newfoundland and Labrador offshore oil production remains a key component of the Canadian industry and a major provider of light conventional crude oil. According to Statistics Canada, the province's share of light and medium crude production in the country has grown from 0.4% in 1997 to 34.4% in 2010. That share has remained relatively stable since 2002, averaging 36.4%.

The value of oil production is expected to increase by 31.4% to $10.8 billion in 2011 as a result of higher crude prices (see chart). The price of Brent crude oil, a benchmark for Newfoundland and Labrador oil, is expected to average around US$110.68/barrel in 2011, compared to US$79.61/barrel in 2010.

Hibernia

The Hibernia field, consisting of the Hibernia and Ben Nevis/Avalon reservoirs, is among the largest oilfields ever found in Canada and, with estimated reserves of 1.4 billion barrels (including oil already extracted), boasts the largest reserves of Newfoundland and Labrador's three active projects. Operated by the Hibernia Management and Development Company Ltd. and located in the Jeanne d'Arc Basin 315 kilometres (km) southeast of St. John's, it has been producing oil since late 1997 using a gravity based structure (GBS).

Through the first nine months of 2011 production at Hibernia was 42.4 million barrels, up 0.8% (or 0.3 million barrels) from the same period last year. Although production was little changed from last year, there was a significant amount of activity at Hibernia. Most importantly, first oil from the Hibernia South Extension Unit (HSE Unit) occurred on June 23, 2011.

The HSE Unit is part of the larger Hibernia South Extension, which also includes the AA Blocks. The Hibernia South Extension has estimated recoverable reserves of 215 million barrels, extending the life of the Hibernia project by 5-10 years. Approximately 8.4 million barrels of these reserves were extracted prior to 2011.

For 2011, production is expected to total 57.1 million barrels (of which 14.5 million barrels will come from the AA Blocks and HSE Unit), compared to 56.3 million barrels in 2010. Cumulative Hibernia production from November 17, 1997 to

September 30, 2011 was 765.4 million barrels, representing 54.9% of total estimated reserves.

Terra Nova

The Terra Nova field was the second major Newfoundland and Labrador oil discovery to commence production, delivering first oil in January 2002. The field, just southeast of the Hibernia project, is operated by Suncor Energy Inc. using a floating production, storage and offloading unit (*Terra Nova FPSO*). Terra Nova is the second largest producing field in Newfoundland and Labrador's offshore area with an estimated 419 million barrels of recoverable reserves.

The Terra Nova project produced 12.3 million barrels of oil during the first three quarters of 2011, a decline of 7.5 million barrels (or 38.1%) over the same period in 2010. For the year as a whole, Terra Nova is projected to produce 16.2 million barrels, which would represent a 34.9% decline (or 8.7 million barrels). Production, while anticipated to be lower than 2010 due to natural declines, has been impeded further throughout the year by the discovery of sour gas in, and the subsequent shut in of, two producing wells in October 2010. Two additional wells were also shut in because of flowline linkages to the wells containing sour gas. The shut in of these four wells led to deferred production equivalent to 23,000 barrels per day.

The production decline at Terra Nova was mitigated somewhat by Suncor re-entering a well in the East Flank region of the field and bringing an approximately 18,000 barrels-per-day production well online; and deferring repairs to the water injection swivel to 2012. This repair work was first identified in 2006 and had been contemplated for 2011 at the beginning of this year. It is estimated that the swivel repair work will take approximately 105 days. The maintenance turnaround will also include work to replace flowlines and risers to reduce sour gas impacts.

From January 20, 2002 to September 30, 2011 cumulative production at Terra Nova was 323.6 million barrels, representing 77.2% of estimated reserves. Reserves are expected to be fully depleted by 2018.

White Rose (including North Amethyst)

White Rose is the latest offshore area in the province to be brought into production by industry. Operated by Husky Energy Inc., first oil from the South Avalon Pool was produced in November 2005 via use of the *SeaRose FPSO*. Including already extracted oil, proven reserves and potential resources in White Rose and White Rose Expansion fields (North Amethyst, West White Rose and South White Rose Extension), there are 373 million potential barrels of oil in the White Rose area. 175.2 million of those barrels, or 47.0% of reserves and potential resources, had been extracted as of September 30, 2011. Production for 2011 is expected to total 25.6 million barrels, compared to 19.4 million barrels in 2010.

Oil production from the North Amethyst field began on May 31, 2010. North Amethyst is the first satellite field development at White Rose and was brought into production less than four years after discovery. It is the first subsea tie-back project in Canada.

The White Rose project, including output from the North Amethyst field, produced 18.7 million barrels in the first nine months of 2011, up 3.7 million barrels (or 24.8%) from the same period of 2010. Production was higher primarily due to better than expected well performance and higher operating efficiencies at North Amethyst, which produced first oil in May 2010.

Drilling of the West White Rose pilot oil producing well started on August 12, 2010. This well achieved first oil in September 2011 and is currently undergoing flow tests. The West White Rose area is considered to be the most complex, and potentially the largest, of the White Rose expansions. The South White Rose Extension, the smallest of the tie-back developments (24 million barrels in estimated reserves), received regulatory approval in 2007. It is at Husky's discretion when and if to develop this resource.

On October 14, 2011 Husky issued an expression of interest for front end engineering and design (FEED) associated with the development and implementation of a concrete gravity structure (CGS) wellhead platform (WHP). A WHP would replace the mobile drilling units currently in operation at the White Rose project and provide Husky with fewer well interventions and less weather-associated downtime, as well as lower operating costs and a higher resource recovery rate. A decision from Husky on the implementation of a WHP has not been made but is expected some time in 2012.

Hebron

The Hebron field, discovered in 1981, will be Newfoundland and Labrador's fourth stand alone offshore oil project. Development activities have been ongoing since 2008, when the province signed the final agreement with the Hebron consortium to develop the oilfield. First oil is expected in late 2016 or early 2017. The Hebron field, located just to the northwest of the Terra Nova project in the Jeanne d'Arc Basin, is estimated by the consortium to contain 645 million barrels of recoverable reserves, making it the second largest field after Hibernia. Like Hibernia, Hebron will be developed using a GBS, but on a smaller scale.

The province, through Nalcor Energy, purchased a 4.9% equity stake in the Hebron project at a cost of $110 million. It will pay a proportional share of project costs and receive a corresponding share of production. ExxonMobil Canada Properties (36.0%), Chevron Canada Limited (26.7%), Suncor Energy Inc. (22.7%) and Statoil Canada Ltd. (9.7%) make up the remaining Hebron consortium participants.

On April 15, 2011 ExxonMobil, on behalf of the Hebron consortium, submitted the Hebron Development Plan, including the Benefits Plan and revised Environmental Comprehensive Study Report, to the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB). Following a completeness review by the Board, the development plan was referred to public review commissioner Miller Ayre on August 25, 2011. The commissioner has until February 23, 2012 to deliver public comments and recommendations to the C-NLOPB and the federal and provincial ministers of Natural Resources. Public review sessions associated with this process are currently being conducted in Clarenville, Marystown and St. John's.

Construction of the Hebron GBS is scheduled to commence in 2012 at the Bull Arm fabrication facility. This stage of development is expected to create a total of 4.1 million person hours of construction employment. In August 2010, Hebron awarded the topsides FEED contract to WorleyParsons Canada Services Ltd. The Hebron consortium also awarded the GBS FEED and Bull Arm site preparation contract, worth US$140 million, to Kiewit-Aker Contractors in November 2010.

Exploration

Offshore

Corridor Resources is moving forward with exploration plans to assess a subsea geological structure known as Old Harry off the western coast of Newfoundland in the Gulf of St. Lawrence. Corridor Resources holds an exploration licence issued by

the C-NLOPB and has plans to drill an exploration well on the structure. The proposed exploration well would evaluate the resource potential of the prospect and form the basis of any related followup exploration programs. In February 2011, Corridor Resources filed a project description with respect to its proposed drilling program. This program is now undergoing an environmental assessment including an update of a previous Strategic Environmental Assessment of the Western Newfoundland and Labrador Offshore Area and an independent review of the proposed drilling program.

In addition to developments concerning Old Harry, extensive drilling activity has been ongoing in 2011. The drilling rig *Henry Goodrich* was especially active. Under the operation of Suncor, it completed operations at Ballicatters M-96Z in the Jeanne d'Arc Basin, which the company confirmed produced a hydrocarbon discovery. The *Henry Goodrich*, under the operation of Statoil, also spudded the delineation well Mizzen F-09 in the Flemish Pass on July 29, 2011 and the exploration well Fiddlehead D-83 in the Jeanne d'Arc Basin on October 4, 2011.

Off the west coast of Newfoundland, Shoal Point Energy drilled the exploration well Shoal Point 3K-39. The company is currently finalizing the well completion and testing program. Deer Lake Oil and Gas is looking to commence drilling activity off the west coast, specifically in regards to the Young Harry prospect in the Exploration Licence 1102 (EL-1102), although no time frame for this activity has been announced.

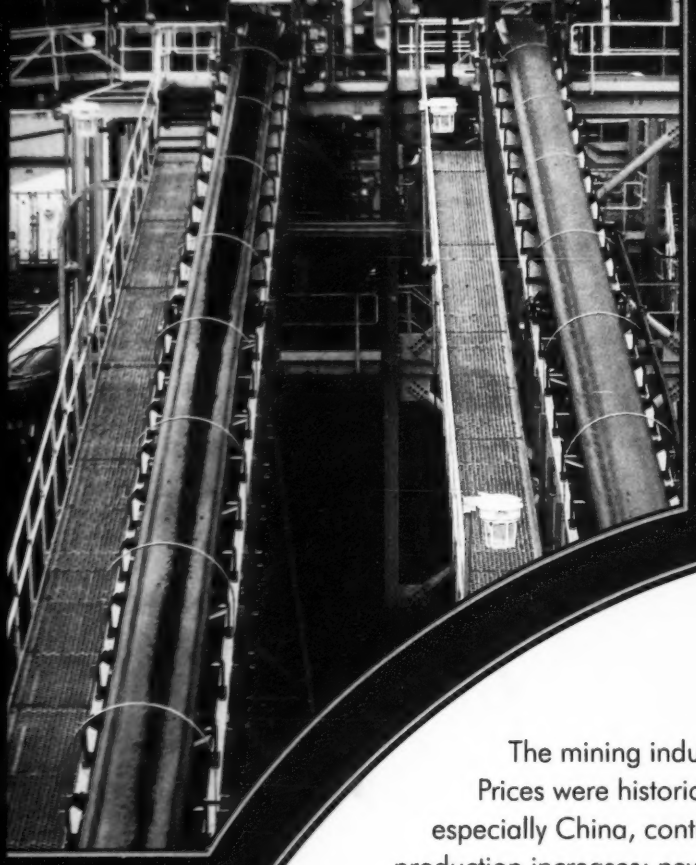
Significant seismic surveying also took place this year. Statoil completed a 3D survey project in the Flemish Pass on September 1, 2011 and Chevron completed a 3D survey in the Northern Grand Banks and Flemish Pass on August 15, 2011. Nalcor is investing $6 million in a multi-client 2D seismic survey, focusing primarily on offshore Labrador. The survey is being conducted by Multi Klient Invest (a joint venture of Norwegian companies Petroleum Geo-Science and TGS NOPEC Geophysical Company) using the survey vessel *Sanco Spirit*. Work commenced in September 2011 and should take two seasons to complete.

In terms of new offshore areas available to industry for exploration and development, the C-NLOPB announced the winning bids for the 2011 licence auction on November 16, 2011. The areas that were up for auction comprise 1,599,295 hectares over eight parcels in the Western Newfoundland and Labrador Offshore Region (two parcels won by Ptarmigan Energy Inc.), the Flemish Pass/North Central Ridge area (two parcels won by a consortium of Statoil, Chevron and Repsol E&P Canada Ltd.)

and the Labrador Offshore Region (no bids received for the four parcels). The four successful bids totalled $349.8 million in work commitments, the second highest single-year bid total since 1988. The highest total was $672.7 million in 2003.

Onshore

In June 2011, Vulcan Minerals announced plans for a drilling program with regards to the Journois location in its Flat Bay interests near Stephenville. These plans originally included a shallow coring program of 3-5 test holes and drilling a 1,000-metre well. The shallow coring program, which commenced on September 27, 2011, has been completed and ultimately included six test holes and wells. The results are currently being analyzed.



Mining

Photo: Crushed ore (Labrador Iron Mines Holdings Limited)

The mining industry posted a strong performance in 2011. Prices were historically high as demand from developing countries, especially China, continued to be strong. High prices supported production increases; new mines began production; further expansion plans were announced; and mineral exploration approached near record levels.

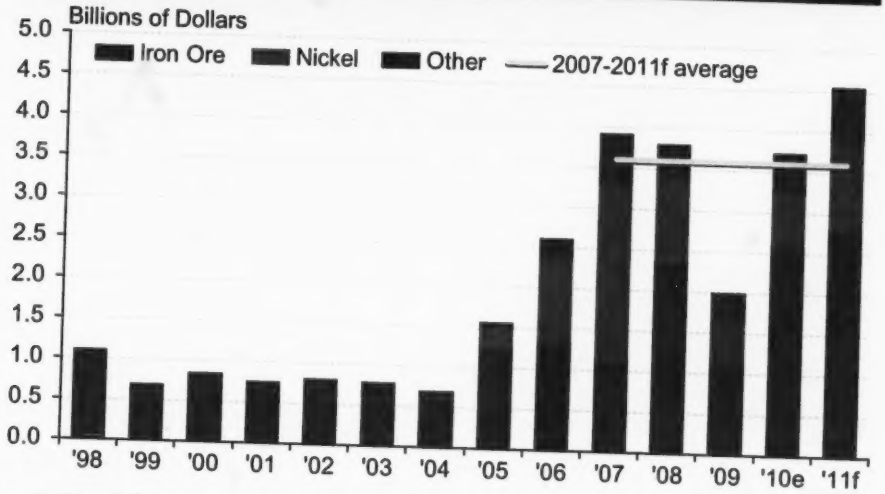
The value of mineral shipments is expected to total over $4.5 billion in 2011, reflecting both higher production and prices. If realized, this would represent an increase of over 21% from 2010 (see chart) and the highest value on record. Exploration expenditures are expected to increase almost 50%—mainly the result of various iron ore and gold projects. Total mining-related employment (including employment associated with construction and development activities) is expected to be about 6,000 person years—the highest level in over three decades.

Market Conditions

Demand for mineral products has been robust in 2011. Steel production in China continued to flourish supporting demand, and consequently, prices for iron ore. Some slippage in prices occurred in the past few months reflecting the slowdown in the United States, slower growth in China and the European debt crisis.

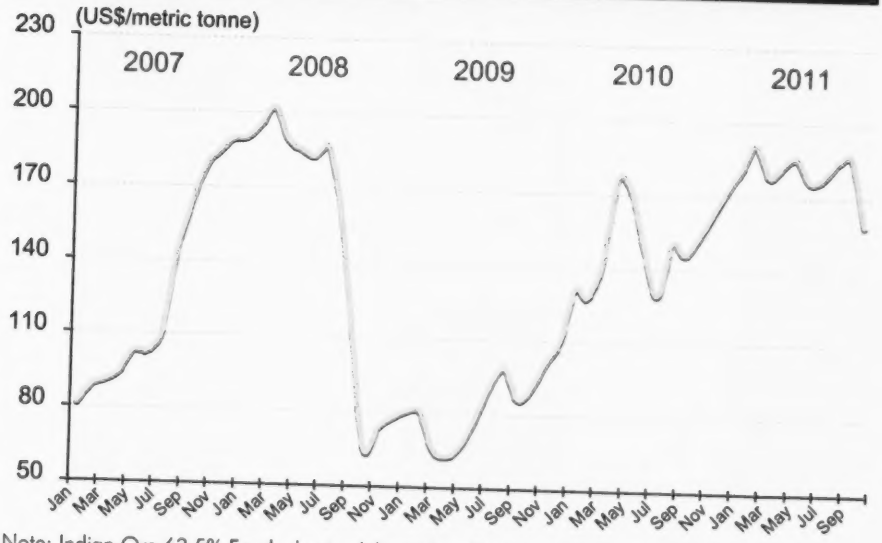
Average iron ore spot prices for 2011 have risen 20-30% over last year (see chart). Market volatility caused some iron ore producers to shift from quarterly prices to monthly prices and others are expected to follow.

Mineral Shipments



e: estimate; f: forecast
Source: Department of Natural Resources; NRCan

Iron Ore Monthly Spot Prices



Note: Indian Ore 63.5% Fe, dry basis, delivered to Chinese Northern Ports
Source: The AME Group

Labrador Iron Mines Ltd. (LIM) began operations in April 2011 and shipped its first iron ore to China in October. The company is the first new iron ore producer in the province since 1965.

The company mines and processes high grade, direct shipping iron ore in northwestern Labrador. While part of the iron ore that the operation produces is of high grade (65% iron content) and suitable for direct shipping to market, the remaining lower grade ore (about 54%-59% iron content) is minimally processed at the facility to upgrade the ore before shipment. The processing plant is operational and running at the designed throughput and recovery levels. The operation currently employs approximately 80 people.

LIM entered into an agreement with IOC for the sale and shipping of all of its 2011 iron ore production. The iron ore is being delivered to Asian markets and sold by IOC's marketing organization on the spot market.

The company has plans to expand the operation, that could mean the addition of a separate plant by 2013 with the capacity to produce 2.5-3.0 million tonnes of ore per year. Planned additions to the existing plant will provide similar throughput for a combined capacity of 5-6 million tonnes of ore.

Nickel and copper prices also rose substantially over 2010 levels. Nickel prices increased by more than 15% and copper prices increased almost 30% in the first three quarters of 2011, compared to the same period last year. Prices reached an average of US$11.07/pound for nickel and US$4.20/pound for copper in September 2011.

Iron Ore

Total iron ore shipments are expected to be about 19 million tonnes in 2011, a decrease of 4% relative to 2010. This decline is due to lower production at the Iron Ore Company of Canada (IOC) resulting from equipment and labour availability issues. However, the value of shipments is expected to rise almost 10% due to higher prices.

IOC continues to expand its capacity. Phases 1 and 2 of a three-phase project are under construction with capital costs of $539 and $289 million, respectively. Phase 1 will begin in the first quarter of 2012 and is expected to increase production from 18 million tonnes to 22 million tonnes. Commissioning of Phase 2 will begin in the first quarter of 2013 and will increase capacity further to 23.3 million tonnes. The original plan included a Phase 3 that would increase production to 26 million tonnes; this is under consideration.

IOC is also investigating an additional expansion plan, called Project Genesis, that would increase production to 50 million tonnes annually. This entails a staged expansion that involves investment in the company's mines, plants, rails and ports. The company completed an order of magnitude study and the

engineering selection process has begun. If sanctioned, first production is expected in 2015.

Iron ore production at Wabush Mines increased in 2011 and is expected to expand further. Over the next several years, significant capital expenditures are planned. This includes $30-$35 million to replace existing equipment and to acquire new equipment in the pit; $20 million to improve concentrator equipment reliability; up to $30 million on environmental projects; and $30 million for full implementation of a manganese project upon approval by Cliffs Natural Resources.

Voisey's Bay

Production at Vale Newfoundland and Labrador's (VNL) operations at Voisey's Bay, Labrador is expected to increase in 2011. For the first three quarters this year, total production (nickel, copper and cobalt) reached 86,000 tonnes—more than double the production in the same period in 2010. This increase is due to the end of a 17-month labour dispute in January 2011. The company plans to ship over $1.4 billion of metal concentrates in 2011—up over 65% compared to 2010, mainly the result of increased nickel production but also higher prices.

The construction of VNL's US$2.8 billion nickel processing facility in Long Harbour continues with building construction and infrastructure upgrading. Capital expenditures for 2011 are expected to be $817 million. The project was estimated to be more than 50% complete as of October 2011 with approximately 2,000 workers on site. Peak employment is anticipated in the second quarter of 2012 at approximately 3,500 people. The project is expected to be completed in 2013. The plant will take 18 months to reach full capacity following completion of construction.

Other Mines

Anaconda Mining Inc. began gold production in 2008 at its Pine Cove mine in Baie Verte. Gold prices are at record highs, increasing about 30% in the first three quarters of 2011 over the same period last year. The company completed a redevelopment of the mill last year and operations are approaching design specifications (1,000 tonnes per day). Anaconda is exploring a new gold vein less than 100 metres north of its open pit mine that could extend the eight-year life of the project. Employment at the mine is about 45-50 person years.

Teck's Duck Pond underground copper-zinc mine produces approximately 650,000 tonnes each year. The operation employs approximately 324 people. An active

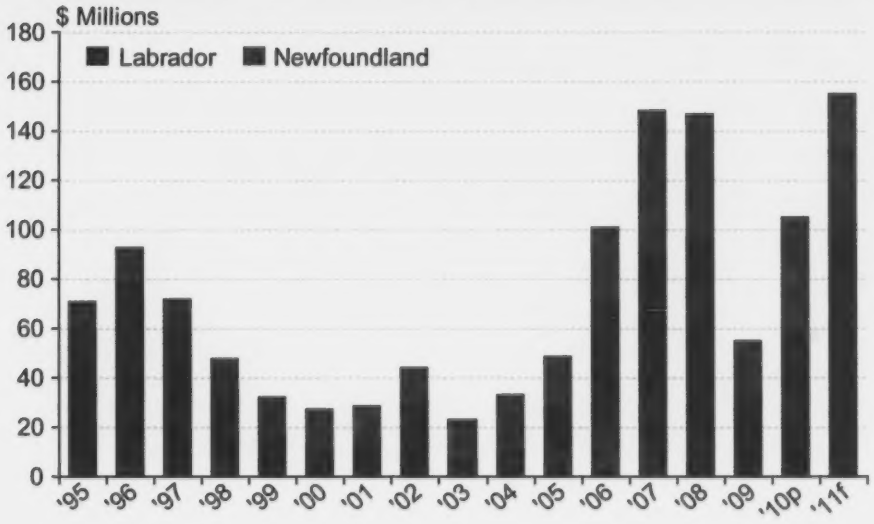
exploration program is underway in an effort to extend the mine life beyond 2014.

There are various other mines in the province, such as Beaver Brook Antimony Mine in central Newfoundland (reactivated in 2008) and Atlantic Minerals in Lower Cove, that produce a wide variety of mineral products. Many of these operations are benefiting from robust commodity market conditions in 2011.

Exploration

Exploration expenditures are expected to increase to $158 million this year from the $105 million recorded in 2010 (see chart). The major commodities of interest are iron ore, copper and gold, reflecting strong demand and prices for these metals. There is also significant interest in rare earth elements in the province, as well as renewed interest in uranium—expenditures for each of these commodities are expected to be in the $10 million range in 2011.

Mineral Exploration Expenditures



p: preliminary; f: forecast
Source: Department of Natural Resources

New Developments

Mineral development activity in the province is supported by strong market conditions. Investment in developing properties continued in 2011 and several projects have advanced.

Newspar, an equal partnership between Canada Fluorspar Inc. (CFI) and Arkema (a multinational French chemical company), continues efforts to reactivate the underground fluorspar mine located at St. Lawrence on the Burin Peninsula. The company plans to develop two deposits; complete upgrades to the existing mill; and construct a tailings management facility and a new marine terminal. The provincial government approved a $17 million loan for the construction of the marine terminal. In June 2011, Arkema invested $15.5 million in CFI to acquire 19.9% of the company. A second level of investment was completed in October 2011, that involved Arkema funding $60 million and CFI funding $14 million into Newspar. Newspar and CFI continue to take steps to comply with the Mining Act before construction starts. Production is scheduled to start in the fourth quarter of 2013 or the first quarter of 2014. The operation is expected to create about 150 jobs during production.

Rambler Metals and Mining Canada Ltd. (RMM) is advancing development of the Ming copper-gold mine on the Baie Verte Peninsula. Construction and underground development are continuing with mill startup and commissioning planned for the fourth quarter of 2011. RMM recently completed the construction of a new copper mill adjacent to the existing Nugget Pond gold mill and expects first shipment of concentrate during the first half of 2012. Employment at the site is currently about 140 person years and is expected to reach about 200 person years in 2013.

Tata Steel Minerals Canada Ltd. (TSMC) is a joint-venture company owned by Tata Steel of India and New Millennium Iron Corp. (a publicly listed, Canadian junior mining company). TSMC is developing a direct shipping iron ore deposit in northwestern Labrador/northeastern Quebec. The project is split into two phases and both have been released from environmental assessment. Construction of a work camp began in the second quarter of 2011 and site clearing for a plant is under way. TSMC expects to begin commissioning the plant in the third quarter of 2012 with full operating capacity expected between November 2012 and January 2013. The project is expected to employ about 188 people. Tata Steel and New Millennium are also undertaking a $50 million feasibility study for several large taconite (low grade iron content) deposits in the same area.

Alderon Iron Ore Corp. is developing the Kamistiatusset iron ore project located in Labrador West near Labrador City and Wabush. The company recently published a pre-feasibility study on one of three possible ore bodies. The study indicates that the mine could produce eight million tonnes of iron concentrates per year over a 15-year mine life. The project was registered for environmental assessment in October 2011. The registration contains provisions to increase planned production to 16 million tonnes per year in a two-phased capital expansion. The capital cost of the project is estimated at $989 million with construction and operational employment estimated at 768 and 268, respectively.

Forestry and Agrifoods

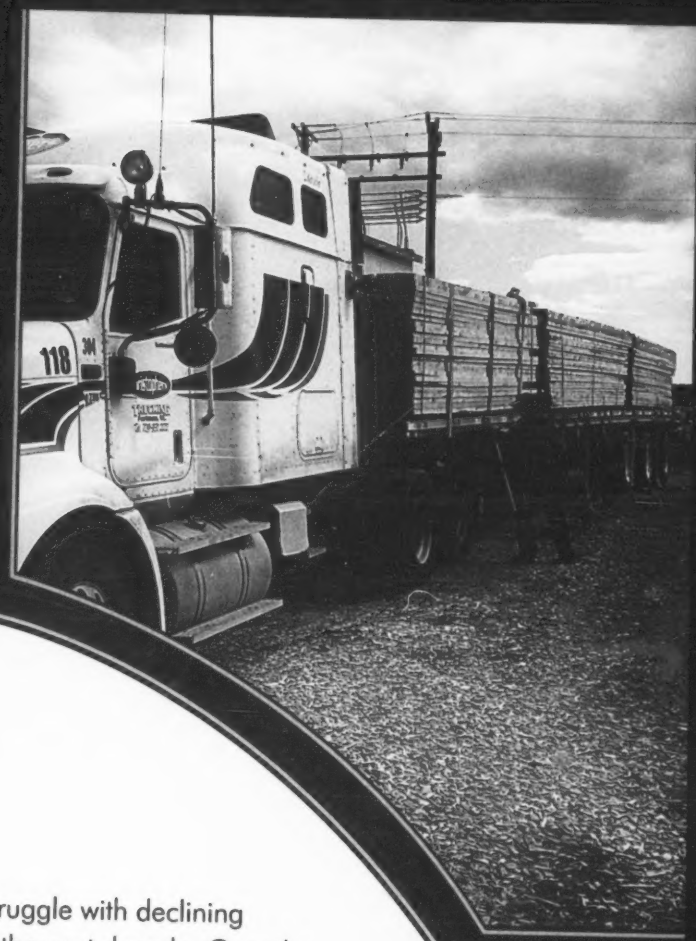


Photo: Holson Forest Products Ltd. (Dept. of Finance)

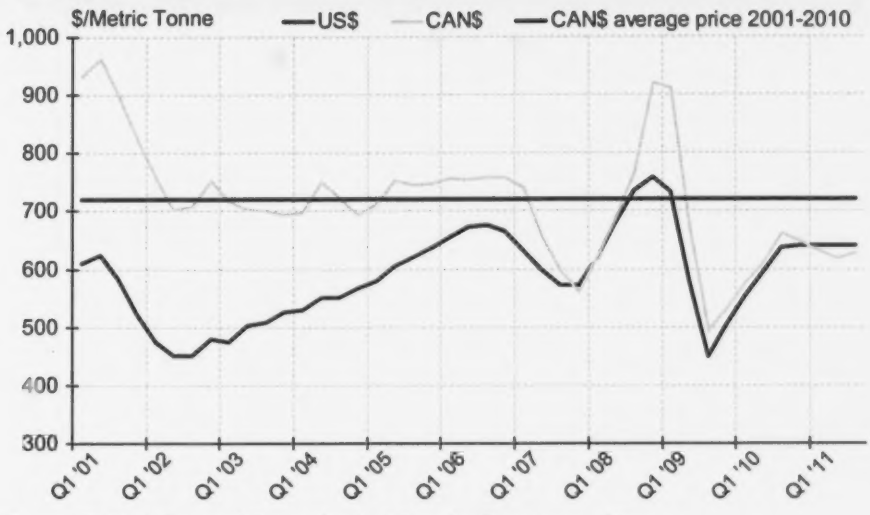
Forestry

Newsprint—North America

The North American newsprint industry continued to struggle with declining demand in 2011, a trend which has been ongoing for the past decade. Over the past 10 years North American newsprint demand has been cut by more than half. Demand dropped by 6.2% in the January to August 2011 period, compared to the same period a year earlier. Exports overseas were down by 4.3% with declines in western Europe only partially offset by increased shipments to customers in China and India. As domestic demand continues to decline, overseas markets have become increasingly important to North American newsprint producers, representing about one-third of total shipments today versus less than 20% a few years ago.

Newsprint prices have remained relatively stable since the third quarter of 2010 at around US$640/tonne and are expected to remain so for the rest of this year. The average price during the first three quarters of 2011 was about 8% above the same period last year. However, for producers in this country, an increase in the Canadian dollar eroded much of this gain, so that the average price in Canadian dollars was up by less than 2%. Much of the benefit once enjoyed by Canadian producers because of the low Canadian dollar has disappeared, and at times turned negative, over the last three years as the Canadian dollar approached parity, and, at some times, became more valuable relative to the U.S. dollar (see chart).

Newsprint Prices



Source: TD Bank Financial Group; Bank of Canada; Department of Finance

North American newsprint mills operated at between 92% and 93% capacity in the third quarter of 2011. With overall demand continuing to decline, industry experts are speculating that further capacity reductions will be required in the future to support prices.

Newsprint—Province

The provincial newsprint industry has faced many of the same challenges as the North American industry, resulting in the permanent closure of two mills, one in 2005 and a second in 2009. Consequently, the Corner Brook mill, operated by Corner Brook Pulp and Paper Limited, is currently the only newsprint operation in the province. The company presently operates two paper machines (PM No. 2 and PM No. 7) with a combined capacity of 260,000 tonnes per year.

Paper product shipments (both newsprint and directory paper) totalled 181,816 tonnes during the first nine months of 2011, a decrease of 4.2% from the same period in 2010. This decline reflects, in part, lost production due to both mechanical and electrical repairs and the implementation of directory paper production. The first shipments of directory paper from the mill commenced in February this year. Directory

paper is a thinner, stronger paper often used in telephone directories. The mill shipped about 8,540 tonnes of this paper from February to September 2011. The total value of paper product shipments in 2011 is expected to be down by between 2% and 3%, reflecting lower volume.

Lumber and Wood Pellets

The North American lumber industry has struggled in recent years because of a slump in the U.S. housing market, its single biggest customer. Annual U.S. housing starts have continued to languish in the 500,000-600,000 range, compared to a pre-recession average of 1.5 million. This has kept lumber prices low and created a tough, competitive environment for the Canadian sawmill industry. Since 2008, Canadian producer prices for softwood lumber and ties have remained, on average, about 17% below pre-recession prices. This situation would have been worse had it not been for increased demand in Asian markets.

The slump in lumber demand created challenges for the sawmill industry in this province. The industry moved to improve its economic situation through increased utilization of raw materials, mill upgrades and product line enhancements. By early next year, all four of the larger integrated sawmills in the province will have undergone mill improvements and modifications. These four mills—located in Bloomfield, Summerford, Roddickton and Hampden—represent roughly 85%-90% of lumber production in the province. There is an acknowledgement by industry stakeholders that the long-term viability of the sawmill sector can only be ensured through market diversification and an expanded product line. The latest marketing strategy being co-ordinated by the province hopes to identify and develop overseas markets to reduce Newfoundland and Labrador's reliance on U.S. markets.

Efforts to improve the viability of the industry have been met with some success as lumber production in recent years has regained some lost ground. In 2011, the volume of lumber produced in the province is expected to be about 95 million board feet, up from 82 million board feet in 2010. The value of production is expected to increase from $26 million in 2010 to $34 million this year, reflecting higher production and some price gains. Further production increases are anticipated over the near term.

Wood pellets is a new product for the value-added wood products sector in this province and is providing diversification to sawmills' product lines. Last year two wood pellet plants operated, producing 3,000 tonnes of product for local markets.

This year Holson Forest Products in Roddickton started operating a new 50,000 tonne capacity wood pellet plant. It is anticipated that the main export market for these pellets will initially be Europe. Wood pellets are produced from sawdust, tree bark, planer shavings and small diameter, low quality timber. The pellet industry has been growing globally as market interest in new wood fuel products has been sparked by high fuel prices and consumer desire for cleaner, more efficient heat sources.

Agrifoods

Farm Cash Receipts

Farm receipts for provincial farmers totalled $97.3 million during the first nine months of 2011, up 6.4% from the same period in 2010. Livestock and livestock products, which account for over 85% of farm receipts, were up by 7.5% to $83.7 million. Higher sales of fur, eggs and cattle were behind the increase. Fur production receipts increased by 40.7% to $15.8 million, egg production receipts increased 13.0% to $12.5 million and cattle receipts increased 31.7% to $1.9 million. Dairy product receipts dropped 3.4% to $33.0 million during the period. Although farm receipts for chicken production are no longer published, data from the Chicken Farmers of Canada indicate that the volume of chicken produced in the province decreased by 1.4% to 10.2 million kilograms during the first nine months of 2011. Crop production increased 1.0% to reach $13.3 million during the first nine months of 2011.

Research and Development

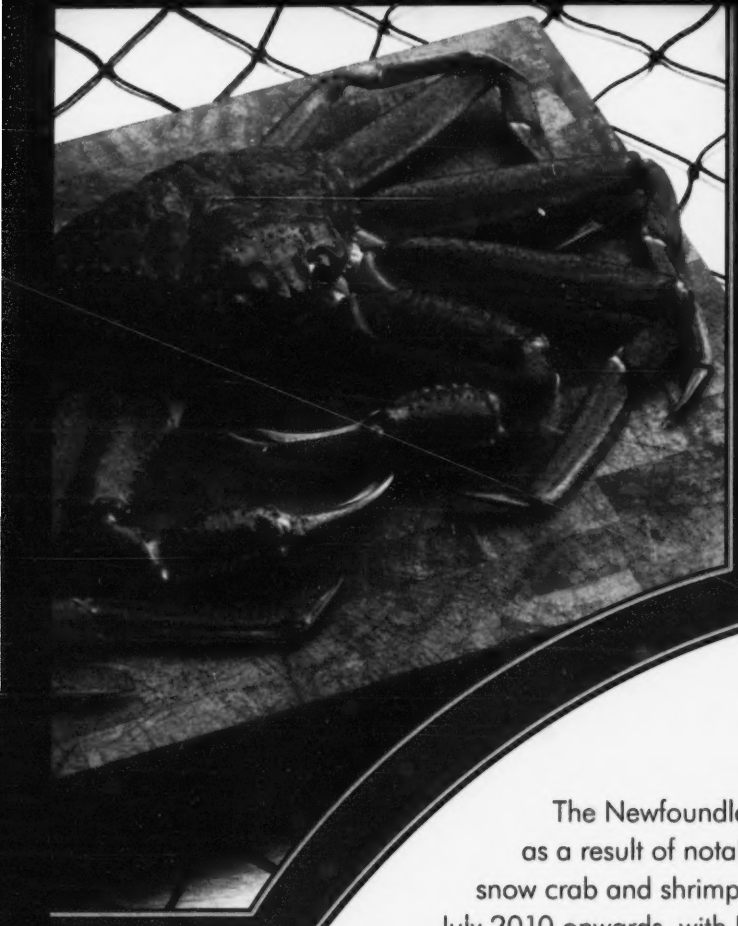
Research and development in the agriculture industry is important to build an environment of self-reliance, growth and diversification. The Agriculture Research Initiative is a three-year federal/provincial agreement running from 2011/12 to 2013/14. The agreement is expected to provide $2.5 million per year in funding initiatives for a total of $7.5 million. This year there are 15 projects currently approved under this R&D initiative. The type of projects vary but include alternative feeds and crops and pest management. One example of the type of research underway is sweet potato growing trials discussed below.

Alternative Crops—Sweet Potato

Throughout the province's history some of the more frequently grown vegetables have been potatoes, cabbage, carrot, rutabagas, and beets. These traditional crops are well suited to the province's soil and climate conditions. However, more vegetable producers in this province are beginning to expand their operations and are looking

to grow a variety of non-traditional crops including green and waxed beans, broccoli, cauliflower, lettuce, parsnips, green peas, pumpkins, squash, zucchinis and sweet corn. Many of these crops are considered to be "high-value", providing a good return on investment.

Consumption of sweet potato in Canada has increased significantly in recent years, due in part to this product's popularity with the health-conscious consumer. Sweet potatoes are being grown commercially in Ontario and Quebec, and smaller acreages have been grown in the Maritime provinces in recent years. Several farms in the province are participating in research to evaluate the effects of an integrated planting system for growing sweet potato. This system consists of raised beds, plastic mulch, low tunnels and drip irrigation for growing sweet potato. Monitoring of growth rates, time to maturity, and cost of production will ultimately lead to informed recommendations for the provincial agriculture industry.



Fishery

Photo: Snow crab (Dept. of Fisheries and Aquaculture)

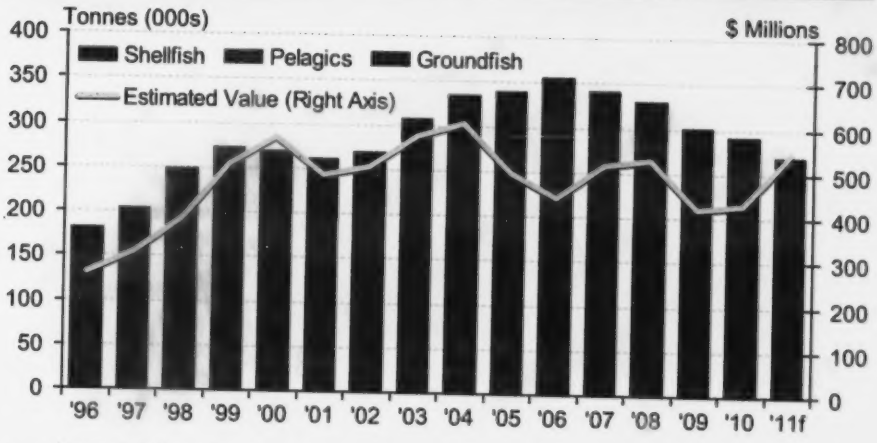
The Newfoundland and Labrador fishery fared well in 2011 as a result of notable price increases for key species, particularly snow crab and shrimp. Snow crab market prices rose sharply from July 2010 onwards, with U.S. market prices for 5-8 ounce (oz) sections reaching a level not seen in 14 years. Similarly, U.S. prices for cooked and peeled coldwater shrimp are currently at their highest level in 10 years. These developments are mainly the result of a global supply shortage and a strengthening yen that has allowed Japanese buyers to increase their market share. Despite lower fish landings overall for the province, the increase in prices was more than enough to significantly increase both landed value and production value.

Preliminary estimates indicate that fish landings in 2011 will be about 268,000 tonnes, falling 11.1% short of the 2010 level (see chart). The decline in landings is mainly the result of lower mackerel landings and a shrimp quota reduction. The corresponding landed value is expected to increase to $544 million, up 23.8% from 2010, as a result of increases in raw material prices.

Employment levels in the fishery declined in 2011. As of September, processing employment totalled about 9,900, down 1.9% compared to the same period in 2010.[1] As of late October, there were about 10,400 registered harvesters in the province. More harvesters are expected to register with the Professional Fish Harvesters Certification Board by year's end and harvesting employment is expected to be on par with the 10,800 recorded last year.

1 Processing employment data are from Department of Fisheries and Aquaculture's annual Employment Insurance survey and are based on the number of individuals employed during the year. The harvesting employment data are based on the number of fish harvesters registered with the Professional Fish Harvesters Certification Board. These data report a higher employment number than the Statistics Canada Labour Force Survey data (included in the table on page 54), which use a person year concept of employment.

Volume and Value of Commercial Fish Landings



p: preliminary; f: forecast
Source: Department of Fisheries and Aquaculture; Fisheries and Oceans Canada

Harvesting

Shellfish

Shellfish landings are expected to fall 5.2% in 2011 to 170,000 tonnes, down from almost 180,000 tonnes in 2010. Despite this decline in landings, total landed value is expected to increase by 30.2% to about $480 million in 2011. This increase reflects higher raw material prices for both snow crab and shrimp.

Approximately 85,000 tonnes of shrimp are expected to be landed in 2011, down 10.6% from 2010. Inshore shrimp landings were down 7.5% in the January to October 2011 period compared to the same period of 2010. Offshore shrimp landings decreased about 14% over the same period. Both of these reductions were due to quota cuts in Shrimp Fishing Area 6 (15% cut in inshore; 5% cut in offshore) and Shrimp Fishing Area 7 (40% cut in both inshore and offshore). Gulf shrimp landings were down 4.0% (approximately 250 tonnes) due to a small quota cut in 2011. In spite of these reductions, the overall landed value of shrimp is expected to increase 16.1% to $162 million, up from $139 million in 2010. The minimum landed price paid to harvesters for inshore and Gulf shrimp was $0.65/pound, up from $0.48/pound in 2010.

Snow crab landings in 2011 increased by a modest 1.5% to 53,000 tonnes from 52,200 tonnes in 2010. The minimum price received by harvesters increased to $2.15/pound compared to $1.35/pound last year. As a result, the 2011 landed value increased 61.6% to $251 million from $155 million in 2010.

Both surf clam and lobster landings and their corresponding landed value are expected to be down in 2011. Surf clam landings are expected to decline to approximately 22,000 tonnes with a landed value of $34 million, compared to 23,000 tonnes valued at $42 million in 2010. Approximately 2,000 tonnes of lobster, valued at about $17.2 million, was landed. This is down from 2,500 tonnes valued at $18 million in 2010.

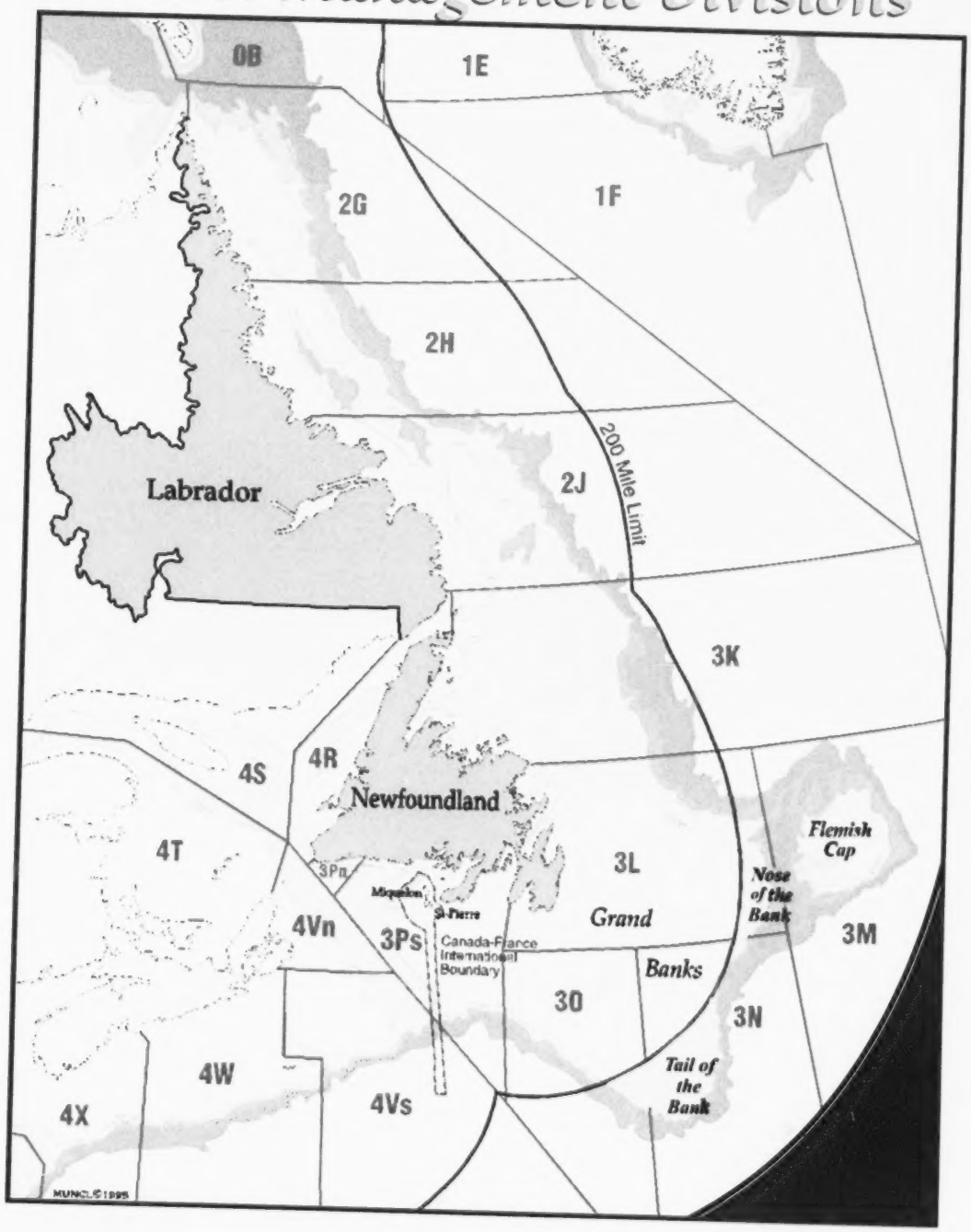
Groundfish

Groundfish landings decreased 17% to around 28,400 tonnes over the January to October 2011 period, compared with the same period of 2010. Total groundfish landings for 2011 are expected to be about 33,000 tonnes, 16.5% less than last year. Landed value is expected to decrease slightly from $50.5 million to $49.3 million. This trend can be attributed to lower landings of cod and yellowtail flounder. Cod landings from January to October were down approximately 19% to almost 8,400 tonnes. This reflected a quota reduction in the Northwest Atlantic Fishery Organization (NAFO) Division 4R (see map). Yellowtail flounder landings were down about 38% to nearly 4,000 tonnes as a result of a strike at Ocean Choice International (OCI) Limited in the early months of 2011.

Pelagics

Pelagic landings were down 10.1% from 53,800 to 48,400 tonnes over the January to October 2011 period, compared to the same period of 2010. Overall landings are expected to be down in 2011 as a result of lower mackerel catches. Mackerel landings are expected to be down 69.1% from last year, to about 10,000 tonnes. Landed value of mackerel is expected to decline from $8.6 million in 2010 to $4.4 million in 2011. Capelin landings have increased significantly this year, up 24.1% compared to last year, due to higher catches in NAFO Division 3K. The corresponding landed value for capelin remained on par with last year at approximately $3.6 million. The average landed price per pound for capelin and mackerel during the 2011 season was $0.06 and $0.20 respectively.

Northwest Atlantic
Fisheries Management Divisions



Seals

Poor ice conditions and unfavourable markets in 2011 contributed to reduced effort and, subsequently, performance for the seal fishery. The number of seals harvested decreased by 43.5% from 2010 to around 38,000 in 2011. This is down 81.8% from over 200,000 seals caught in 2008. The average price per pelt in 2011 was on par with 2010 at $21.

Processing and Marketing

Seafood production during the January to October 2011 period totalled approximately 131,000 tonnes, down 7.9% from the same period in 2010. For the year as a whole, total production value is expected to increase to over $1 billion compared to $942 million in 2010.

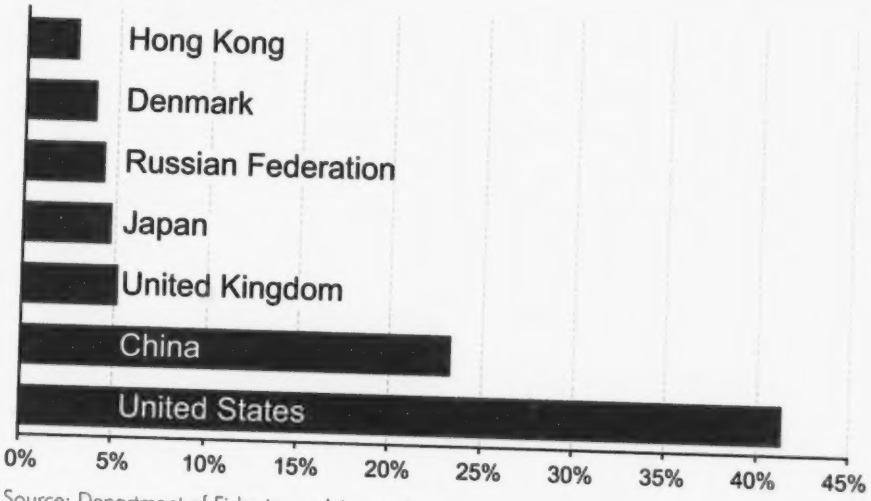
The focus on sustainability and eco-labelling continues to grow in key markets for Newfoundland and Labrador seafood products. The province currently has five fisheries certified to the Marine Stewardship Council (MSC) standard[2]: the Canada Northern Prawn fishery; the Fogo Island Cold Water Shrimp fishery; the Canada Offshore Northern (Shrimp Fishing Areas 2, 3, 4, 5, 6, 7) and Striped Shrimp fishery (Shrimp Fishing Areas 2, 3, 4); the Eastern Canada Offshore Scallop fishery; and the OCI Grand Bank Yellowtail Flounder Trawl fishery. There are four fisheries currently in the MSC assessment stage: the Canada Offshore Northern Shrimp fishery (Shrimp Fishing Area 1); the Canada Atlantic Halibut fishery; the Clearwater Seafoods Banquereau and Grand Banks Arctic Surf Clam fishery; and the NAFO Division 4R Herring Purse Seine fishery.

The United States and China remain the largest international markets for the province's seafood products. Other major markets include the United Kingdom, Russia, Denmark and Hong Kong (see chart). From January to August of this year, the province exported approximately 119,000 tonnes of seafood products to nearly 50 countries, valued at approximately $690 million. While the volume of exports is down slightly from last year, the value of exports is up approximately $100 million.

2 The MSC environmental standard for sustainable fishing is the standard that a fishery must meet to become certified. Only seafood from an MSC certified fishery can carry the blue MSC eco-label. The science-based MSC environmental standard for sustainable fishing offers fisheries a way to confirm sustainability, using a credible, independent, and third-party assessment process. It means sustainable fisheries can be recognized and rewarded in the marketplace, and gives an assurance to buyers and consumers that their seafood comes from a well managed and sustainable source.

Percent of Total Seafood Export Value

by Country, Jan-Aug 2011



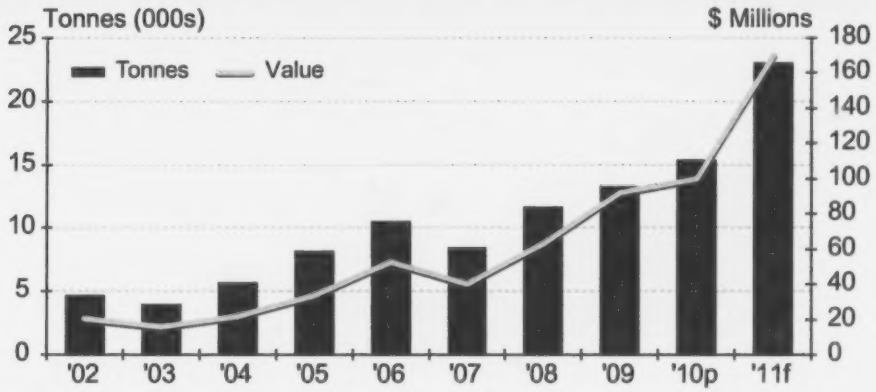
Source: Department of Fisheries and Aquaculture

Snow crab continues to be the most valuable species in the province and 2011 has been one of the strongest years on record. Despite the March 2011 earthquake and tsunami in Japan, demand for snow crab from that country increased this year. The market price for 5-8 oz sections peaked at US$5.86 per pound during the season, reaching a high not seen in the U.S. market in 14 years. The average market price was US$5.73 per pound in 2011 compared with US$4.52 per pound in 2010, according to Urner Barry Publications Inc.

U.S. prices for cooked and peeled coldwater shrimp are currently at their highest level in 10 years. Prices for 250-350 count shrimp averaged US$4.33 in the January to November period, up from US$3.45 per pound in 2010. Prices for 150-250 count shrimp are strong at an average of US$4.77 per pound from January to November, up 27.9% from 2010. The MSC certification of shrimp from Newfoundland and Labrador continues to be a competitive advantage, particularly in the United Kingdom and Germany.

Newfoundland and Labrador producers will continue to take advantage of the 2010-2012 Autonomous Tariff Rate Quota (ATRQ) for cooked and peeled shrimp, which reduces the tariff from 6.0% to zero on the first 20,000 tonnes entering the EU for further processing. In addition, the 2010-2012 ATRQ added yellowtail flounder into the flatfish category, which has an annual quota of 10,000 tonnes at no tariff. Past EU tariffs on yellowtail flounder were as high as 15.0%.

Aquaculture Production and Value



p: preliminary; f: forecast
Source: Department of Fisheries and Aquaculture

Aquaculture

The aquaculture industry in Newfoundland and Labrador focuses on three primary species: steelhead trout, Atlantic salmon and blue mussels. In the first two quarters of 2011, aquaculture production increased 43.5% over the same period last year, with a total of 10,059 tonnes produced. The corresponding market value for aquaculture products rose 54.5%, to just over $92 million. Following the trend experienced in recent years, the rise in production and value was driven by growth in the salmonid sector, particularly Atlantic salmon. Total aquaculture production is expected to be up 49.7% to approximately 23,000 tonnes in 2011 (see chart).

Total salmonid production for the first half of 2011 increased 50.0% to 8,510 tonnes compared to the same period of 2010. The corresponding market value increased 56.0%. Blue mussel production increased 16.6% to 1,549 tonnes. Market value

increased by 33.9%. Some mussel growers have formed the Northeast Coast Mussel Growers Network to identify market development opportunities. There is also a new focus on value-added products. If measures currently being undertaken by industry are successful, it is anticipated the sector will recover to the historic high recorded in 2007 by year's end.

Employment in the aquaculture sector, which was 684 persons in 2010, is anticipated to experience some growth in 2011.

To date, government has been engaged in a number of strategic initiatives aimed at supporting the rapidly expanding salmonid sector. These initiatives include the construction of five new aquaculture dedicated wharves and one upgrade, providing the sector with infrastructure necessary to promote bio-security and sustainability. Government aquaculture staff continues to work with industry to expand salmon smolt production within the province, a priority identified by both industry and government. As further support to the industry, government recently opened the Centre for Aquaculture Health and Development and is continuing to work with private sector partners on a pilot scale net washing facility.

Manufacturing

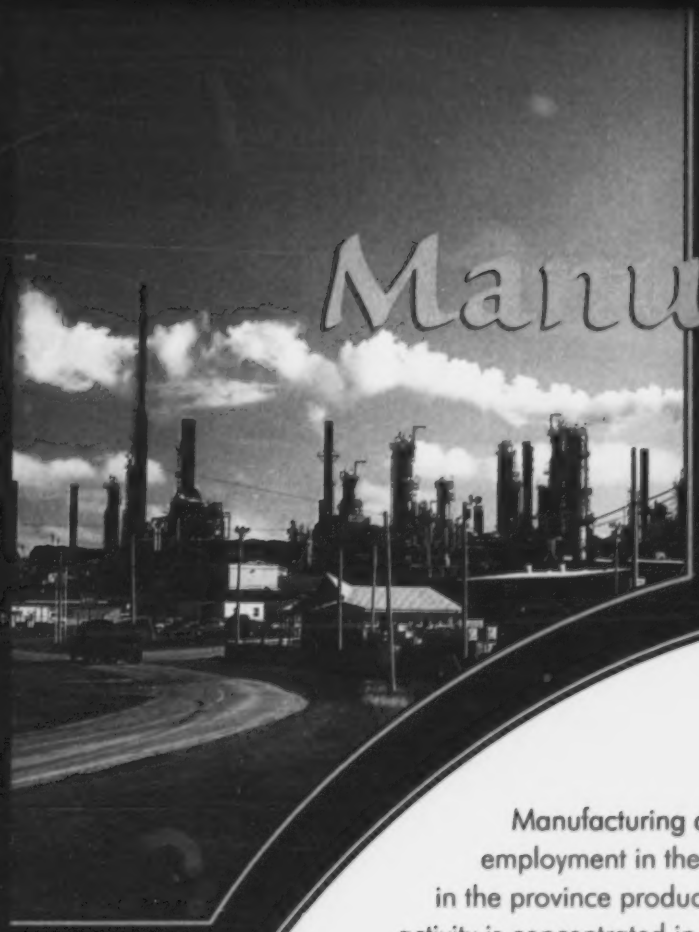


Photo: North Atlantic refinery (Dept. of Finance)

Manufacturing accounted for 4.1% of GDP and 4.5% of total employment in the province in 2010. There are many manufacturers in the province producing a wide variety of products, however, most activity is concentrated in three major groups—food processing (mainly fish), newsprint and refined petroleum.

The value of provincial manufacturing shipments increased this year mainly due to higher market prices for refined petroleum and fish products. For the first nine months of 2011, shipments rose to more than $3.9 billion, representing an increase of 6.9% compared to the same period last year. Nationally, the value of manufacturing shipments rose 7.4% over the same time frame.

According to Industry Canada, the value of refined petroleum product exports from Newfoundland and Labrador increased during the first nine months of 2011 versus the same period last year. Harvest Operations Corp., owners of the North Atlantic refinery, performed a three-month maintenance turnaround which shut down production from May until mid-August. As a result, the volume of production at the refinery was down about 23%, however, the value of sales increased about 2% due to higher market prices. Capital expenditures at the refinery for the first nine months of 2011 totalled $244.8 million. Of this, $56.2 million was spent to advance a $300 million debottlenecking project, which is expected to increase product yield value and improve the energy efficiency of the refinery. The project began in November 2010 and is scheduled to be completed in 2013.

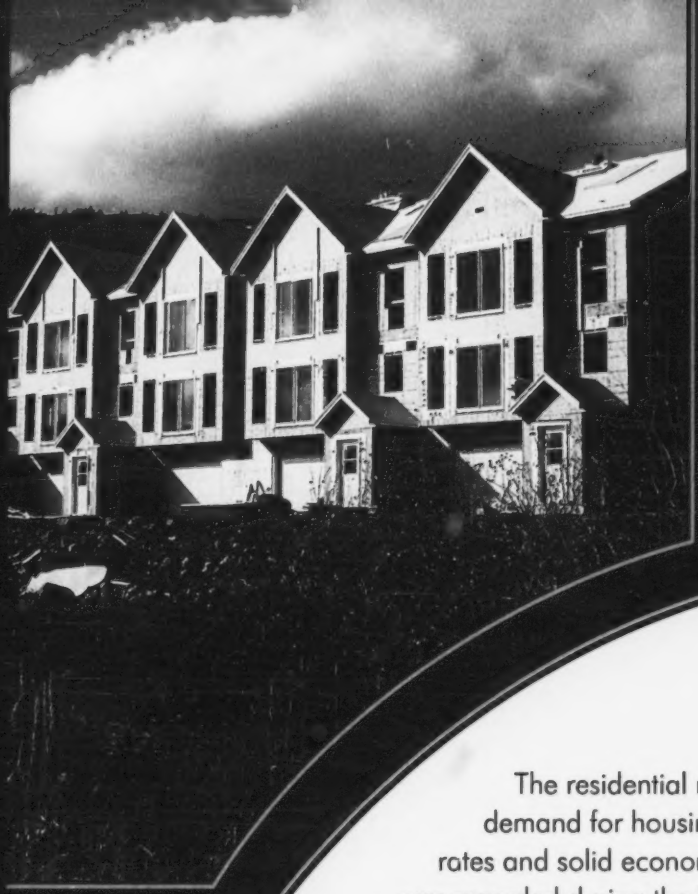
The value of manufactured fish products for the first nine months of 2011 increased by over 17% compared to the same period in the previous year. This reflected higher prices for some species and increased aquaculture production (see *Fishery* for details).

Paper product shipments declined in 2011. For the first three quarters, the volume of paper product shipments decreased by 4.2%, reflecting some lost production due to mechanical and electrical repairs, as well as a shift in product line. On an annual basis, paper product shipments are expected to be down between 2% and 3% compared with 2010 (see *Forestry and Agrifoods* for details).

Manufacturing employment averaged 10,900 in the first 10 months of this year, representing an increase of 6.1% over the same period in 2010. Fish processing employment increased by about 500, while manufacturing employment outside of fish processing increased by about 200.

Investment in manufacturing remains robust. In addition to the refinery project, investment in 2011 is being boosted by the continued development of Vale's US$2.8 billion nickel processing plant in Long Harbour. Vale expects capital expenditures on the project to total $817 million in 2011.

While the bulk of investment is concentrated in large-scale commodity processing, other manufacturers (those that specialize in smaller, more specialized markets) have advanced their operations this year. Eastern Star Group Canada Inc. received a loan from the provincial government to establish a 5,000 sq. ft. shrimp shell processing plant in Twillingate and Marport Deep Sea Technologies was awarded a multi-million dollar contract to develop sonar modules for a military electronics contractor.



Real Estate

Photo: Townhouses, Maddox Cove (Dept. of Finance)

The residential real estate market remained robust in 2011. Strong demand for housing continues to be fuelled by record low interest rates and solid economic fundamentals. A moderate slowdown in activity was recorded during the first half of 2011 (from levels at or near historic highs), however, activity increased in the second half. Housing starts, sales and prices are on pace to post another strong year. The residential rental market also remained strong in 2011, with low vacancy rates and higher rents.

Housing Starts

During the first three quarters of 2011, housing starts totalled 2,561 units, down 6.2% compared to the same period in 2010. By comparison, housing starts were down 4.1% in the Maritimes and 0.8% in Canada over the same period.

Single-detached starts (which typically account for about 80% of total starts in the province) declined by 16.0% to 1,899 units, while multiple starts (which include denser housing types such as row, semi-detached homes, apartments and condominiums) increased by 41.8% to 662 units. Factors contributing to the increase in multiple starts likely include tight conditions in the rental market, increased affordability and an aging population.

Results differed for housing starts between urban and rural areas during the first nine months of 2011. Urban housing starts (which account for approximately two-thirds of housing starts in the province) were up 8.8% to 1,759 units. Conversely, rural starts were down 27.9% to 802 units. The divergent results between urban and rural can be partially explained by the type of housing being built—multiple units are more likely to be constructed in more populated urban centres.

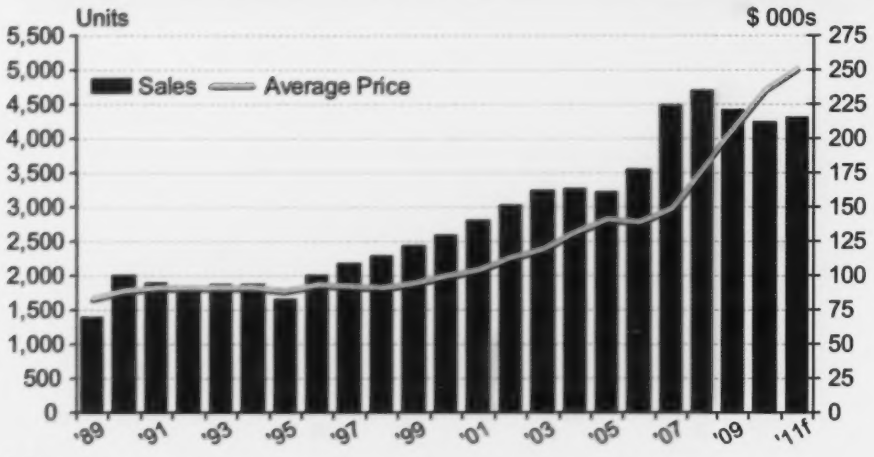
f: forecast
Source: Canada Mortgage and Housing Corporation; Department of Finance

For the year as a whole, total housing starts are expected to reach 3,351 units, which, if realized, would represent a decrease of 7.1% from 3,606 units in 2010. Despite being lower than the previous year, housing starts are still high in a historical context. Since 1989, housing starts have averaged 2,424 units per year (see chart).

Residential Sales Activity and Prices

Residential sales activity and prices have been showing signs of stabilization, consistent with national trends, but both remain at or near historically high levels (see chart). The number of residential properties sold in the province through the Canadian Real Estate Association's Multiple Listing Service® (MLS®) during the first 10 months of 2011 was 3,664, up 1.5% from the same period in 2010. Sales activity declined during the first half of the year, decreasing by 9.0%, before turning positive in the third quarter. More recently, a pickup in activity has been recorded. During the past four months (July-October) residential sales were up 12.8% compared to the same four-month period in 2010. Sales in the St. John's Census Metropolitan Area (CMA) were up 0.2% during the first 10 months of 2011. Nationally, residential sales were up 1.9% during the first 10 months of 2011.

Residential MLS® Sales and Average Price



f: forecast
Source: Canadian Real Estate Association (November 2011)

During the first 10 months of 2011, the average MLS® residential price in the province was $249,725, an increase of 6.8% compared to the same period in 2010. The average MLS® residential price during the same period in the St. John's CMA was $265,920, an increase of 6.7% over 2010. While sales and prices continue to be strong, increases in active listings appear to be moderating upward price movement. Active listings (a measure of inventory in the resale housing market) were up 19.7% in the province and 25.6% in the St. John's CMA during the first 10 months of 2011. Nationally, the average MLS® residential price increased 7.8% to just under $365,000 during the first 10 months of 2011.

Rental Market

Residential rental vacancy rates have been near historic lows throughout Newfoundland and Labrador. Since 2008, vacancy rates in urban areas increased from 1.1% in April 2010 to 2.1% in April 2011 (latest data available) but remain very low and well below the high of 15.4% reached in 1997. In April 2011, vacancy rates were 1.7% in the Corner Brook Census Agglomeration (CA), 2.0% in the St. John's CMA, 2.3% in Gander, and 2.7% in the Grand Falls-Windsor CA. Although vacancy rates are low, rents remain near the lowest in Atlantic Canada. In April 2011, the average monthly rent for a two-bedroom apartment in Newfoundland and Labrador

was $683, up from $640 in April 2010. This compares to $848 in Nova Scotia, $752 in Prince Edward Island and $672 in New Brunswick. It is expected that improved labour markets, positive net-migration and higher housing prices will continue to keep vacancy rates low and place upward pressure on rents.

Special Feature

New Home Prices, St. John's CMA

The St. John's CMA accounts for approximately 80% of MLS® residential sales and about 55% of housing starts in the province. Population, income and employment growth have all contributed to a very strong housing market in most regions of the province over the past number of years, especially in the St. John's CMA. According to Canada Mortgage and Housing Corporation's (CMHC) Market Absorption Survey (a quarterly survey designed to collect prices and measure the rate at which new housing units are sold or rented after they are completed), the average new home price of absorbed single-detached units in the St. John's CMA has increased by 71.1% from just over $200,000 in 2006 to almost $350,000 during the first three quarters of 2011 (see table). Prices have increased in all sub-regions of the CMA. The largest price increase was found in Torbay where average prices have more than doubled from $197,159 in 2006 to $396,092 in 2011. The smallest price increase occurred in Mount Pearl, where average new home prices of single-detached units increased by 20.3% from $234,557 in 2006 to $282,265 in 2011. New home prices within the St. John's CMA are the second highest among all urban centres in Atlantic Canada, behind only the Halifax CMA that has a comparable average new home price of $404,962.

New Home Prices—St. John's CMA

Average Price of Absorbed Single-detached Units

	2006	2010	YTD 2011 (Q1-Q3)	2006-2011 (%)
St. John's City	$212,533	$343,816	$358,664	68.8%
Conception Bay South	$170,441	$272,176	$297,645	74.6%
Mount Pearl	$234,557	$283,054	$282,265	20.3%
Paradise	$211,855	$338,760	$366,854	73.2%
Torbay	$197,159	$353,945	$396,092	100.9%
Remainder of CMA	$206,218	$314,460	$348,843	69.2%
St. John's CMA	$202,698	$325,436	$346,770	71.1%

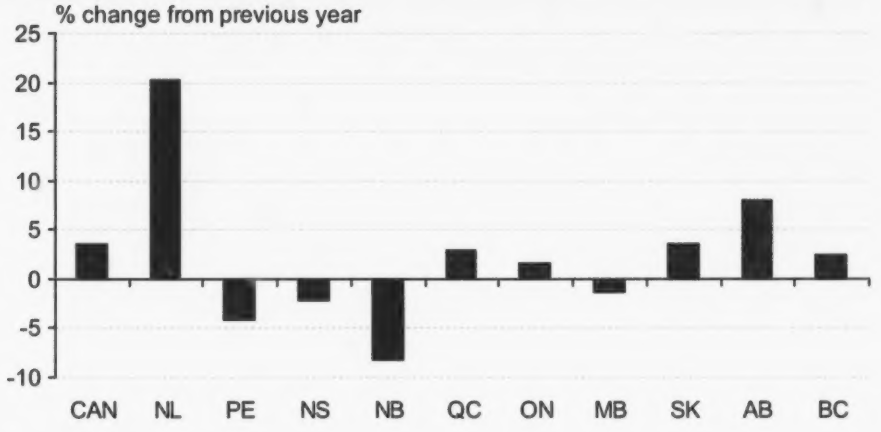
Source: Canada Mortgage and Housing Corporation (Market Absorption Survey)

Construction

Photo: Construction—Shoal Harbour Dr., Clarenville (Dept. of Finance)

The construction industry accounted for 5.9% of the province's GDP and 7.0% of total employment in 2010. The industry has benefited from significant residential and non-residential investment in recent years. Construction spending in Newfoundland and Labrador is forecast to reach an estimated $6.2 billion in 2011, up 20.3% from 2010, representing the strongest growth experienced among the provinces (see chart).

Construction Investment Intentions 2011



Source: Statistics Canada

Non-Residential Construction

Non-residential construction accounts for the largest portion of construction expenditure, representing 72.0% of investment in 2011 (see chart). Construction investment in this sector is expected to reach a record $4.4 billion, up 30.8% from 2010. This increase is being driven by both the private and public sectors. The advancement of private sector major projects, in particular activity related to the Long Harbour nickel processing facility, the IOC expansion, the Hebron project, and tie-ins to the Hibernia oilfield, all contributed to high levels of spending. In addition, continued investment in infrastructure by the provincial government contributed to higher public sector investment. A snapshot of some of the largest private sector projects underway in the province is contained in the table on the following page.

p: preliminary; i: intentions
Source: Statistics Canada

Residential Construction

Investment in residential construction is expected to remain strong in 2011, comparable to the record highs seen in 2010. Residential construction expenditures for the first half of 2011 were up 6.8% compared with the same period in 2010. Significantly higher expenditures on renovations (+18.3%) offset a decline in spending on new dwellings (-7.5%). This is consistent with housing starts data which showed a 6.2% decline in the first three quarters of 2011 (see *Real Estate*).

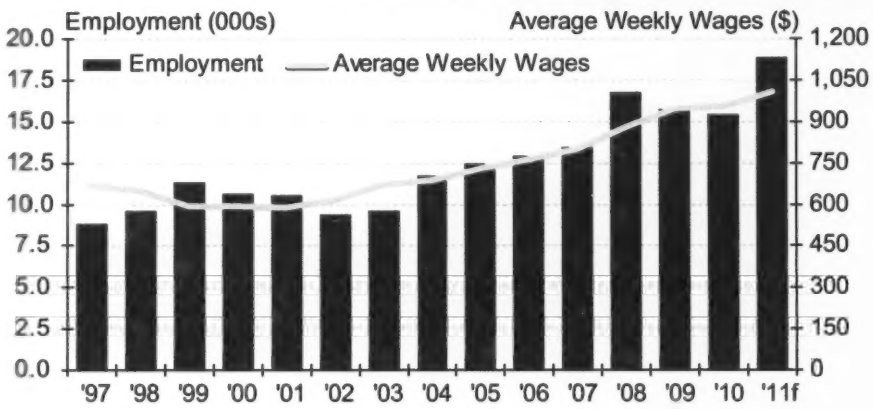
Building Permits

The value of building permits issued in Newfoundland and Labrador reached $763 million over the January to September period of this year. This was primarily driven by residential building permits, which reached a value of $560 million (73% of the total).

Construction Employment and Wages

Construction wages have increased considerably over the past decade (see chart). In 2011, average weekly earnings through the month of September increased significantly (+5.4%) compared with the same period in 2010. Average employment between January and October 2011 increased by 22.1%, or 3,400, compared to the same period in 2010. Annual employment in the construction industry in 2011 will likely be the highest level ever recorded in the province. Major project development combined with the continuation of government's infrastructure strategy has significantly contributed to increased employment.

Construction Wages and Employment



f: forecast
Source: Statistics Canada

Selected Major Projects

Nickel processing facility

$2.8 billion — Spending $817 million in 2011; employment in October was about 2,000.

Iron Ore Company of Canada expansion

$828 million — Phase I and II of the mine expansion are already underway and are expected to bring annual capacity to 23.2 million tonnes.

Phase III, which would increase capacity to 26 million tonnes, is currently under consideration.

White Rose expansion

$3.5 billion — Development of three White Rose satellite fields; first oil from the North Amethyst field was in May 2010; West White Rose pilot well delivered oil in September 2011.

Hibernia Southern Extension Unit

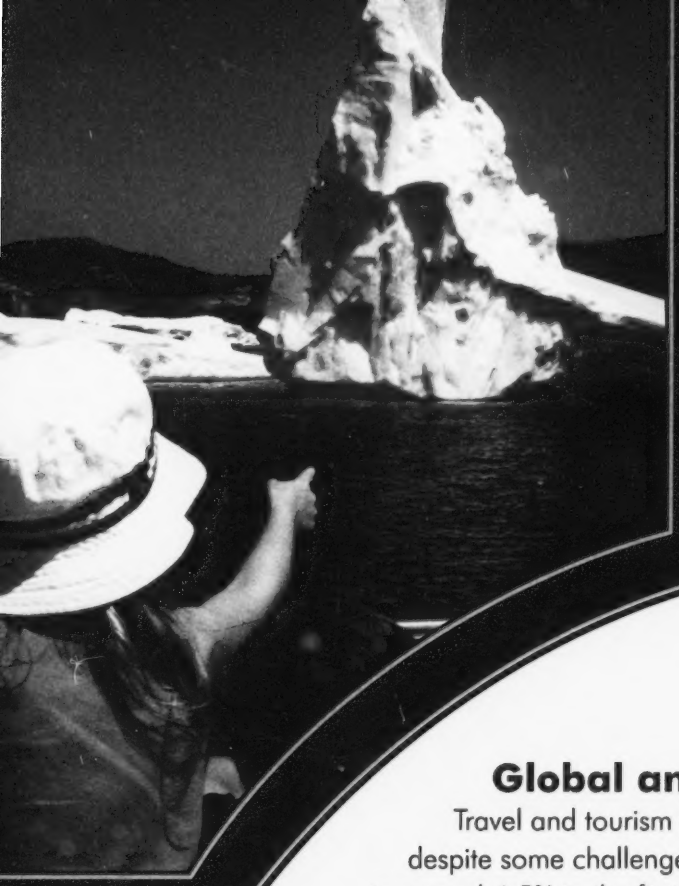
$1.7 billion — Includes drilling of production wells from the GBS; drilling of sub sea water injection wells from a mobile drilling unit; and GBS topsides modifications.

Hebron offshore oil development

$8.3 billion — Development of the Hebron oilfield; construction of the GBS expected to begin in 2012; first oil in late 2016 or early 2017.

Muskrat Falls hydroelectric development

$6.2 billion — Memorandum of Agreement on a loan guarantee was signed in August; project is expected to be complete by 2017.



Travel and Tourism

Photo: Iceberg—Twillingate (Dept. of Tourism, Culture and Recreation)

Global and National Travel

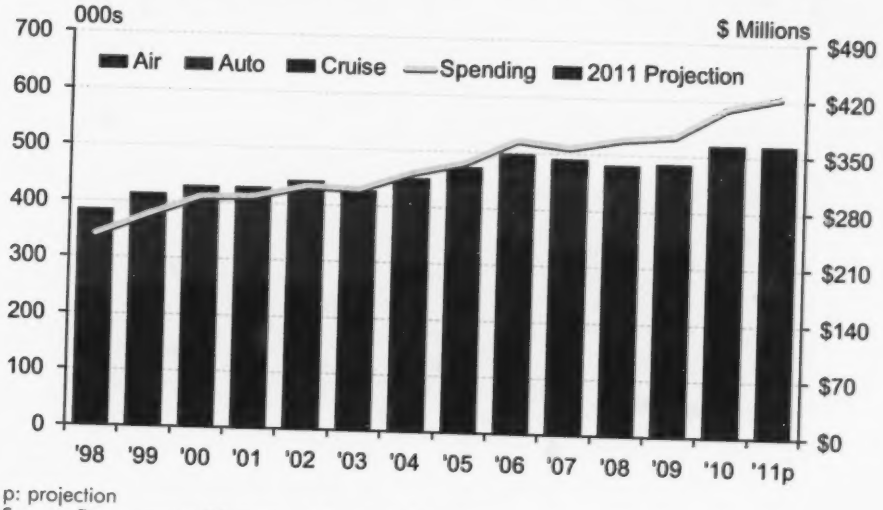
Travel and tourism worldwide continued to build on 2010's gains despite some challenges this year. Global international tourist arrivals increased 4.5% in the first eight months of 2011 to 671 million, according to the World Tourism Organization. Growth was positive in all major regions, except North Africa and the Middle East, which were affected by civil unrest. Growth for the remainder of the year is expected to soften as increased global economic uncertainty may reduce travel plans. Overall, international travel activity is expected to increase between 4.0% and 4.5% in 2011. If achieved, the level of activity would be higher than the record year of 2008.

Tourism activity at the national level has been somewhat mixed in 2011. International inbound travel to Canada declined by 3.0% over the January to September period, reflecting a continued decline in visitors from the United States. This trend has been ongoing for the past decade or so. The number of same-day and overnight trips made by U.S. residents declined by 6.5% and 2.1%, respectively, during the first nine months. This reflected a weak U.S. recovery, tighter border crossing security and a stronger Canadian dollar. These losses offset a slight increase in the number of visitors from other international markets.

Canadian hotel occupancy rates increased by 0.9 percentage points in the first nine months compared with the same period last year. This increase could reflect more domestic travel activity and/or an increased length of stay in hotels by travellers in general.

Non-Resident Travel and Tourism Visitors and Spending

By Mode of Transportation



p: projection
Source: Department of Tourism, Culture and Recreation

Provincial Travel

The Newfoundland and Labrador travel and tourism industry has performed relatively well in 2011. The number of non-resident visitors to the province is projected to be on par with 2010, a record year. Associated spending is expected to increase by about 4% to around $425 million. Indicators suggest that this province's tourism sector also performed favourably compared with the other Atlantic provinces, particularly with regards to air travel. The province continues to lead the region with respect to growth in overall air passenger movements, registering a 7.1% increase in passenger travel for the first eight months of 2011 compared to the same period in 2010. This compares to growth of 2.3% in Nova Scotia and 0.02% in New Brunswick, and a decline of 3.1% in Prince Edward Island (PEI). Newfoundland and Labrador was also the only Atlantic province to show increases in accommodation occupancy rates and the number of room nights sold during the first nine months of the year.

Air travel is the largest segment of the province's non-resident tourism sector, accounting for 73% of visitors and 82% of spending in 2010. This segment has been the driver of visitation growth for a number of years. The implementation of the new

12-month air exit survey in 2011 will delay the release of non-resident air visitor estimates until 2012. However, increases in air passenger data suggest that non-resident visitation (by air) continued to rise in 2011. This overall increase reflects, in part, improvements in airline seat capacity. Inbound direct seat capacity is expected to grow 3.0% in 2011, after expanding by about 11% in 2010. The increase in 2011 was mainly driven by gains domestically. However, increases were also noted for flights from the U.S. and other international locations.

Intra-provincial seat capacity is expected to increase 5.0% in 2011. Airlines significantly boosted their capacity to and within Labrador, with more flights between Goose Bay and Wabush and between Goose Bay and St. John's/Gander. Business travel associated with major project development in Labrador has likely been an underlying driver for increased service levels.

Non-residential automobile visitation is estimated to have declined in 2011 despite improvements in transportation infrastructure. The Marine Atlantic ferry service was boosted by an investment of over $520 million in 2010. Improvements were made to onshore facilities and two new ferries were introduced to the Gulf Crossing. Information released by Marine Atlantic suggests that customer satisfaction and performance rates have improved. Nonetheless, automobile visitation is expected to be down 7.7% from 2010, to 107,300. Based on January to October results, declines occurred in virtually all market segments (Western Canada down 14.9%, Ontario down 13.0%, Quebec down 8.5%, the Maritimes down 4.0% and the United States down 4.3%). Travelling by auto continues to be challenged by many factors, including high ferry rates, rising gasoline prices and the competing convenience of air travel.

Cruise activity is expected to be down in 2011. While detailed passenger counts will not be available until later this year, port calls are down to only 83 from 133 in 2010.

Occupancy rates are pointing to another good year for the accommodation industry. The provincial occupancy rate reached 53.1% for the first nine months of 2011, up 0.9 percentage points compared to the same period in 2010. Gains in occupancy rates in the Eastern (2.1 percentage points), Avalon (1.9) and Central (1.1) regions offset losses elsewhere. Preliminary data also indicated an increase of 3.7% in the overall provincial average daily hotel room rate during the first nine months of 2011.

Major meeting and convention activity in the St. John's Metropolitan Area this year is expected to be on par with 2010 levels, based on bookings to date. This

could improve should actual conference room sales exceed expectations for the remainder of the year. It should also be noted that 2010 was a strong year for the number of room nights sold to major meeting and convention delegates (those booking 50 or more guest rooms per night) with over 43,000 nights sold, the highest number since 2007.

The province has increased its marketing efforts substantially in recent years, contributing to the growth in tourism activity. In the 2011/12 budget $13 million was committed to tourism marketing, more than double the level six years ago. While the number of enquiries for information and visits to the province's official tourism website declined by 2.4% during the first 10 months of 2011, those that did visit the site spent a longer time accessing information than in the previous years, indicating increased interest. In addition, the province has more channels now than ever before for increasing awareness and information about the province, including communication tools such as Facebook, Twitter, Flickr and YouTube.

GDP and Employment

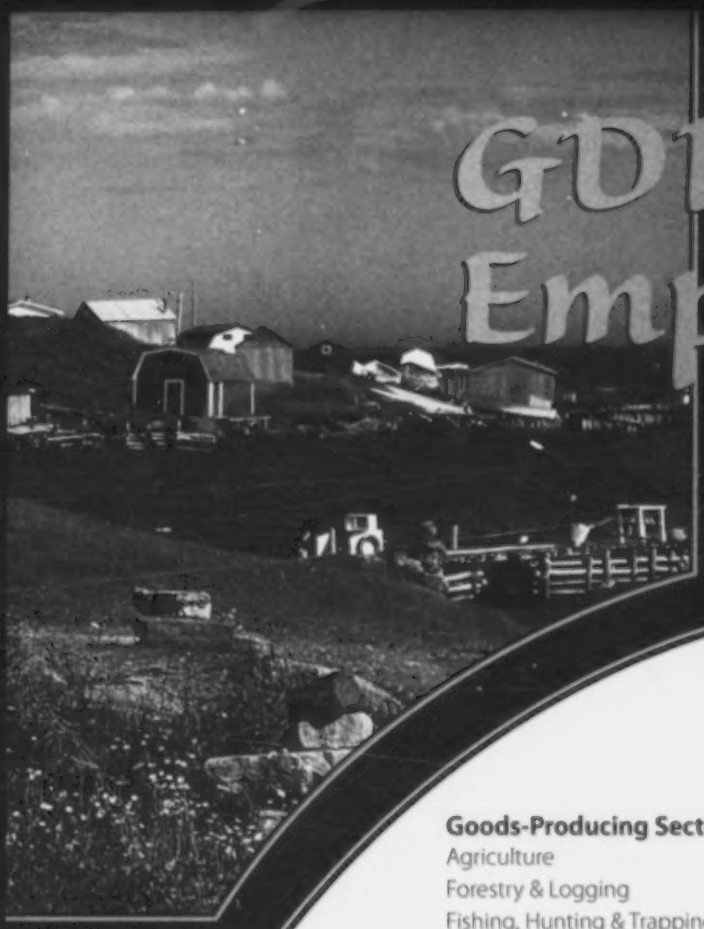


Photo: Red Bay, Labrador (Dept. of Finance)

	Gross Domestic Product 2010e		Employment 2010	
	$ Millions	% of Total	Person Years, 000s	% of Total
Goods-Producing Sector	13,753.8	52.3%	44.7	20.4%
Agriculture	57.8	0.2%	1.7	0.8%
Forestry & Logging	79.6	0.3%	0.9	0.4%
Fishing, Hunting & Trapping	163.0	0.6%	5.3	2.4%
Mining	2,251.5	8.6%	3.8	1.7%
Oil Extraction and Support Activities*	8,000.9	30.4%	5.8	2.6%
Manufacturing	1,066.7	4.1%	9.8	4.5%
Fish Products	266.7	1.0%	3.7	1.7%
Other Manufacturing	800.0	3.0%	6.1	2.8%
Construction	1,540.7	5.9%	15.4	7.0%
Utilities	593.6	2.3%	1.9	0.9%
Services-Producing Sector	12,565.8	47.7%	174.6	79.6%
Wholesale Trade	587.4	2.2%	5.5	2.5%
Retail Trade	1,234.2	4.7%	31.9	14.5%
Transportation and Warehousing	668.3	2.5%	11.8	5.4%
Finance, Insurance, Real Estate & Business Support	2,981.3	11.3%	13.2	6.0%
Professional, Scientific & Technical Services	600.5	2.3%	7.1	3.2%
Educational Services	1,310.9	5.0%	17.1	7.8%
Health Care & Social Assistance	1,936.3	7.4%	36.6	16.7%
Information, Culture & Recreation	623.8	2.4%	7.8	3.6%
Accommodation & Food	372.5	1.4%	13.9	6.3%
Public Administration	1,808.6	6.9%	18.6	8.5%
Other Services	442.0	1.7%	11.2	5.1%
Total, All Industries	26,319.6	100.0%	219.4	100.0%

e: estimate, Department of Finance; *Includes support activities for mining and oil and gas

Source: Statistics Canada; Department of Finance

Note: GDP is expressed at basic prices, measuring payments made to the owners of factor inputs in production. This differs from GDP at market prices. The difference is attributable to taxes less subsidies on products. Industry components may not sum to total due to independent rounding.

Newfoundland Labrador

The Economic Review 2011

Economic Research and Analysis Division
Department of Finance
November 2011

www.economics.gov.nl.ca